REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

GOVERNMENT ASSETS VALUATION POLICY FRAMEWORK FOR THE PUBLIC SECTOR

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EXECUTIVE SUMMARY

The Government Asset Valuation Policy provides a comprehensive framework to guide the identification, classification, valuation, and reporting of public assets across all levels of government in Kenya. This policy seeks to address long-standing challenges in asset management, including inconsistent valuation methods, lack of up-to-date asset registers, and weak compliance with national and international financial reporting standards. By establishing a standardized valuation approach, the policy aims to enhance transparency, accountability, and efficiency in the management of public resources.

Kenya's public sector holds a wide range of assets—tangible and intangible—across various categories, including land and buildings, motor vehicles, infrastructure, ICT equipment, plant and machinery, biological assets, furniture and fittings, and subsoil assets. However, the absence of a standardized valuation framework has led to disparities in how these assets are recorded and valued, resulting in fiscal inefficiencies, audit queries, and inadequate asset planning.

The proposed valuation policy aligns with constitutional values and principles under Article 10 and 201 of the Constitution of Kenya 2010, and complies with key legal statutes such as the Public Finance Management Act (2012), the Public Procurement and Asset Disposal Act (2015), the Valuers Act, and sector-specific guidelines. Additionally, it incorporates best practices from the International Valuation Standards (IVS), International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS), depending on the reporting framework of each entity.

The policy emphasizes the adoption of modern valuation methodologies including the cost, income, and market approaches, depending on the asset type and data availability. The policy also sets out institutional responsibilities, outlining the roles of key actors including the National Treasury, State Departments, County Governments, regulatory bodies, and professional valuation experts.

A robust implementation strategy is embedded in the policy, which includes capacity building for public officers, integration with digital systems such as Enterprise Resource Planning (ERP) platforms and Ardhisasa, and the establishment of internal controls and performance monitoring frameworks. Stakeholder engagement and public participation have been incorporated as key pillars in the development and rollout of this policy, ensuring buy-in from citizens, professionals, and institutional actors.

Ultimately, the Government Asset Valuation Policy is a critical tool for strengthening fiscal discipline, enabling accurate financial reporting, and supporting evidence-based decision-making in public investment and service delivery. Its successful implementation will ensure that public assets are managed and optimized for the greatest benefit of all Kenyans—now and for future generations.

CHAPTER I: INTRODUCTION

1.1. Background

The valuation of public assets is crucial in enhancing accountability, transparency, optimal resource allocation, investments, resource mobilization, decision making, insurance and clear fiscal reporting in government, which fosters public trust and confidence. The valuation of public sector assets may be undertaken for a range of purposes including financial reporting, privatization and restructuring planning of state corporations and public private partnerships, loan origination, bond issuance, and cost-benefit or economic analyses performed by governments either to determine whether a public sector asset is being used and managed optimally and efficiently or to set pricing for monopoly services.

In Kenya and globally, public institutions have increasingly recognized the critical need to improve asset valuation practices. Traditionally, discrepancies in valuation methods have led to significant challenges—ranging from undervaluation or overvaluation of assets, contested audit outcomes, inefficient resource utilization, to poor investment decisions. In response to these concerns, there has been a concerted push toward the institutionalization of asset valuation policies that not only align with national development priorities but also reflect global best practices such as those prescribed under the International Valuation Standards (IVS) and International Accounting Standards.

In Kenya, the Constitution and the Public Finance Management Act (PFMA) envisages that the National Treasury should promote transparency, effective management and accountability in public finance. Further, Section 72 (4) of the PFMA provides that regulations will provide for management and disposal of Government assets. Subsequently to the Public Procurement and Disposal Act (PPAD) and Regulation 139(c) of the PFM (National Government) Regulations, 2015, the National Treasury issued the guidelines and policy on assets and liabilities management.

The Policy of Assets and Liability Management in public sector, 2020 requires under Section 4.11.2 (viii) that initial valuation of assets for purposes of maintaining assets records shall be carried out by management estimates or by the Government Valuer. Section 185(2) of the General Guidelines stipulates that the National Treasury in conjunction with other stakeholders will provide policy direction on standard values to be applied to assets with no values.

Valuation of public sector assets in Kenya is aligned to the Bottom-Up Economic Transformation Agenda (BETA) as it is aimed at improving transparency and accountability in public finance management. Further, the Cabinet directive of March 2024 on transition from cash to accrual-basis of accounting by all public sector entities effective 1st July, 2024, has necessitated valuation of assets in line with the relevant legal provisions. Assets and liabilities reporting is key in accrual basis of accounting and hence valuation will facilitate entities to accurately represent the value of public assets on the government balance sheet.

1.2. Objective

The objective of the policy is to standardize assets valuation approaches across the public sector. Specifically the policy aims to:-

i. To strengthen Government asset management processes, support long-term planning and budgeting, and ensure the sustainable and optimal use of public assets;
ii. Provide a framework for coordination between various Government entities on assets valuation;
iii. Ensure compliance with international valuation and accounting standards;
iv. Support informed decision-making in asset lifecycle management which includes planning, acquisition, operation, maintenance, renewal, disposal to inform policy decisions in respect to leasing, resource mobilization, investments, insurance, replacement and disposal;
v. Guide public sector entities in valuing assets to ensure completeness of the asset register and facilitate transition to accrual accounting and reporting; and
vi. Promote clear fiscal reporting.

1.3. Guiding Principles in Valuation

This policy is guided by the national values and principles of governance contained in Article 10 of the Constitution. Further, the public entities should be guided by the following principles in implementing suitable methods and Procedures for valuation:

i. Objectivity;

As far as possible the predominant use of assets should be reviewed and determined on the basis of an objective assessment of relevant criteria. External parties should be able to understand how and why a particular determination was made.

ii. **Fairness and equity**;

Valuation principles should be applied fairly and equitably. Each property should make a fair contribution to rates based on a method of valuation that appropriately reflects predominant use.

iii. Consistency;

Valuation principles should be applied, and determinations should be made, in a consistent manner. Like assets should be treated in a like manner

iv. Transparency;

Systems and procedures for determining the method of valuation should be clearly documented and available for the public to inspect. The right to govern accompanies the obligation to do so openly and fairly

v. **Administrative efficiency.**

valuation principles and procedures should be applied and implemented in an efficient and cost-effective manner.

1.4. Application and Scope

The policy applies to valuation of all assets for both National and County Governments, and their entities. The valuation approaches prescribed will be used in determining values for Government assets for financial reporting, investment decisions, disposal and for any other purpose as may be prescribed from time to time.

1.5. Definitions

Agricultural activity: The management by an entity for the purpose of harvesting agricultural produce or transforming biological assets into additional biological assets.

Assets: Resources owned by an entity that are expected to provide future economic benefits, and are typically classified into tangible assets (physical items), intangible assets (non-physical items like intellectual property), and financial assets (such as cash, investments, and receivables).

Biological asset is any living animal or plant. Agricultural produce is the harvested product of the entity's biological asset.

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

Building- is a structure that's permanently attached to the land and is not intended to be transportable or moveable. Buildings include commercial, residential, educational, industrial and recreational.

Fair Value – Its definition across IPSAS 46 (Measurement), IVS 104 (Bases of Value), RICS, and the Kenya Valuation Standard is essentially the same. They all define fair value in general as the price that would be received for selling an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants on the measurement date. These standards use three primary approaches to determine fair value: market, income, and cost approaches. Each approach includes various methods or techniques, as specified by the respective standard. It is important to note that the specific method applied to measure fair value may vary depending on the purpose of the asset valuation, such as for insurance, disposal, or accounting purposes (like book value).

Land- includes the surface of the earth and the subsurface rock; any body of water on or under the surface; marine waters in the territorial sea and exclusive economic zone; natural resources completely contained on or under the surface; and the air space above the surface.

Market Value: The price at which an asset would exchange between a willing buyer and a willing seller in an open market.

Valuation: The process of estimating the value of an asset or liability based on specific valuation methodologies and techniques, considering its market, income, or cost approach, and the highest and best use.

Valuation report- is a document that provides exhaustive and comprehensive findings detailing methodologies, assumptions, valuation results and supporting data.

1.6. General Responsibilities

The listed entities will have the following responsibilities in relation to this Policy:

Institution	Responsibilities
The National Treasury	i) Guide the public sector entities on the provisions of this Policy; ii) Develop standard operating procedures on valuation of public assets in consultation with the relevant Government entities; iii) Establish a Public Assets Valuation Board to guide the public sector entities on valuation.
The National and County Government Entities Accounting Officers	i) Manage the assets throughout their lifecycle. ii) Ensure all assets are valued efficiently and effectively; iii) Maintain updated inventories of Assets and Liabilities and maintain proper and accurate books of accounts to facilitate preparation of statement of Assets and Liabilities as part of financial statements.
The State Department for Lands and Physical Planning	i) Through the Valuers Registration Board, register and regulate the conduct of valuers. ii) Issue the Kenya's Valuation Standards, which are aligned to international best practices.
Intergovernmental Relations Technical Committee (IGRTC)	i) Ensure that during transfer of functions and attendant resources/assets between National and County Governments, valuation is done for reporting and connected purposes. ii) Prepare a report to the National and County Governments Coordinating Summit on the status of valuation and

	transfer of assets transferred between the two levels of government. iii) Resolve intergovernmental disputes that may arise during the valuation and transfer of assets between the two levels of government.
Office of the Auditor General	i) Undertake audit activities in state organs and public entities to confirm whether or not public finances including assets and liabilities, has been applied lawfully and in an effective way; ii) All reasonable precautions have been taken to safeguard the collection of revenue and the acquisition, receipt, issuance and proper use of Assets and Liabilities.
The Public Sector Accounting Standards Board:	i) Guide Public Sector Entities on the application of accounting and reporting standards in the country; ii) Prescribe formats for financial statements by all state organs and Public Entities.

1.7. Policy Review and Updates

Given the dynamic nature of asset valuation, periodic reviews of this policy are essential to maintain its relevance and effectiveness. The policy will undergo a comprehensive review every five (5) to ten (10) years, with interim updates carried out when necessary. These updates may be triggered by changes in legislation, advancements in valuation technologies, or feedback from stakeholders.

CHAPTER II: VALUATION POLICY FRAMEWORK FOR LAND AND BUILDINGS

2.1 INTRODUCTION

The valuation of land and buildings in the public sector is essential to ensure proper management, accountability, and optimal utilization of government assets. Valuation is a crucial process that combines a set of multifaceted elements such as analytical, market and technical expertise. It determines not only the market value of land and buildings but also provides critical information for decision making, which involves determining the monetary worth for various purposes such as financial reporting, sale, purchase, mortgage, taxation, or compensation.

Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land in Kenya is governed by the Constitution as well as legislation enacted by Parliament. Matters relating to land are documented under Chapter 5, Part 1 of the Constitution. Article 260 defines land as:

a) "*The surface of the earth and the subsurface rock;*

b) Any body of water on or under the surface;

c) Marine waters in the territorial sea and exclusive economic zone;

d) Natural resources completely contained on or under the surface; and

e) The airspace above the surface".

The Constitution further classifies land as public, community or private. This Policy applies to valuation of public land.

For the purposes of this Policy Framework, land is considered to consist of:

a) the ground, including the soil covering which ownership rights are enforced and from which economic benefits can be derived by their owners by holding or using them; and

b) the associated surface water, including any reservoirs, lakes, rivers, and other inland waters over which ownership rights can be exercised and that can, therefore, be the subject of transactions between units.

Land under paragraph (a) may include:

i) Buildings include commercial, residential, educational, industrial, recreational and sectional properties. Buildings can be private or public; and

ii) Other structures and improvements such as landscaping works including covered play areas, fountains, ornamental plants and grass, sheds, car parking lots – bitumen, cabro paving, stone paving, etc. – sentry houses with security barriers, civil works such as retaining walls, roads, footpaths, and covered walkways, stormwater and sewer drainage,

water reticulation and gas supply, fire protection systems, electrical installations, power systems, communication systems, centralized energy systems, among others.

However, land under this section excludes:

a) Roads, tunnels, and railways, which are covered under public infrastructure assets;

b) Cultivated components such as vineyards, orchards, and other plantations of trees and crops, as well as non-cultivated biological resources (livestock), which are covered under biological assets;

c) Natural resources contained on or under the surface, which are covered under subsoil assets;

d) Movable assets (any tangible or intangible property that is not fixed permanently to one location and can be moved from one place to another without altering its nature or value), such as vehicles (which are covered under Motor Vehicle and Other Transport Assets), electronics (which are covered under ICT assets), furniture, machinery, and equipment (which are covered under Plant and Machinery Assets).

2.2 SITUATIONAL ANALYSIS

2.2.1 Existing Policy and Legal Framework

In Kenya, several legislations and policies govern land and buildings valuation:

a) **Constitution of Kenya (2010):**

- Chapter Five- Articles 60 to 68 defines and provides the overarching legal basis for land in Kenya and vests public land held in trust for the people.
- The Fourth Schedule-assigns the function of General principles of land planning and the coordination of planning by counties to the National Government. The County Governments are assigned the function of county planning and development including; statistics, land survey and mapping, boundaries and fencing, housing, electricity and gas reticulation and energy regulation.

b) **The Cabinet Secretary to Treasury (Incorporation) Act (Cap 101):** Establishes the Cabinet Secretary to Treasury as a body corporate capable of acquiring and disposing assets.

c) **Land Act (Cap 280):** Governs valuation during compulsory acquisition and management of government land. It provides for development of the land value index which is an analytical representation showing the spatial distribution of land values in a given geographical area at a specific time.

d) **Valuers Act (Cap 532**): Regulates the profession of valuers in Kenya, providing for registration, licensing, and ethical practice to ensure high standards in valuation services.

e) **The National Rating Act (No. 15 of 2024**): Regulates the levying of rates on immovable property by county governments based on valuation rolls as well as mechanism for contribution in lieu of rates (CILOR) by the National Government.

f) **Stamp Duty Act (Cap 480):** Governs the assessment and payment of stamp duty on property transactions, requiring accurate valuation of land and buildings for tax purposes.

g) **The Land Registration Act (Cap 300):** governs land registration in Kenya and establishes the criteria under which land titles are issued, as well as procedures for the transfer and registration of land.

h) **The National Land Commission Act (Cap 281**): provides for the role of The National Land Commission (NLC) particularly in land valuation for public interest, compensation, and acquisition matters.

i) **County Governments Act (Cap 265):** bestows upon counties the power to acquire, purchase or lease any land.

j) **Urban Areas and Cities Act (Cap 275):** A framework for categorization of urban areas including markets, townships, municipalities and cities that plays a critical role is property rating.

k) **Physical and Land Use Planning Act (Cap 303**): provides the mechanism for planning within the county, which in turn determines the permitted users within different zones.

l) **Public Finance Management Act (PFMA) (Cap 412A**): Mandates valuation for asset management and public expenditure efficiency.

m) **Public Procurement and Asset Disposal Act (Cap 412 C**): Provides for procurement and disposal of assets.

n) **Sectional Properties Act (Cap. 286)**: Provides for the division of buildings into units to be owned by individual proprietors and common property to be owned by proprietors of the units as tenants in common and to provide for the use and management of the units and common property and for connected purposes

o) **Intergovernmental Relations Act (Cap. 265F)**: Provides a framework for consultation and cooperation between National and County Governments and transfer of functions, powers and attendant resources to either level of Government.

p) **Sessional Paper No. 9 of 2009 on National Land Policy**: Guides the country towards efficient, sustainable and equitable use of land of prosperity and posterity. It consists measures and guidelines on optimal utilization and management of land.

2.2.2 International Standards

International Valuation Standards (IVS) and International Accounting Standards (IAS) are globally recognized and regularly updated standards and best practices that form the basis for valuation and financial reporting. The following standards apply in the valuation for land and buildings;

a) International Valuation Standards

International Valuation Standards (IVS) are globally accepted and regularly updated standards by the International Valuation Standards Council (IVSC) committed to advancing quality in the valuation profession. The objective is to build confidence and public trust in valuation by producing standards and securing their universal adoption and implementation for valuation of assets. They play a crucial role in enhancing the quality, comparability and transparency of valuation comprising of general standards that are applicable across all valuations and asset standards that relate to specific disciplines. The following standards apply to valuation for land and buildings;

i) **IVS 100: Valuation framework:** Provides for the valuer principles, valuation process quality control and compliance

ii) **IVS 101: Scope of Work**- Clear definition of valuation purpose, basis, assumptions, and intended users.

iii) IVS 102: Bases of Value

- **Market Value (MV**): The price agreed between a willing buyer and seller under normal conditions.
- **Market Rent (MR):** The rent expected in an arm's length transaction.
- **Fair Value (FV):** The price in an orderly transaction between market participants.
- **Investment Value**: Value to a specific investor based on individual criteria.

iv) IVS 103: Valuation Approaches

- **Market Approach**: Used for assets with active markets. This approach is commonly applied for the valuation of real property interests. The valuation should consider the type of interest, location, quality of land, permitted use, the purpose and time of valuation.
- **Cost Approach**: Used as a primary approach to assets with service potential but no market. This approach is generally applied to the valuation of real property interests through the depreciated replacement cost method.
- **Income Approach**: For revenue-generating assets (e.g., investment property). Income approach methods are essentially a discounted cash flow, but for real estate the Income capitalization (profits) and traditional discounted cash flow methods are used.

v) IVS 104: Data and inputs: provides for the characteristics of data and inputs, and use of a specialists or service organization**.**

vi) **IVS 105: Valuation models:** addresses the selection and use of valuation models. The valuation model is a tool used for the quantitative implementation of valuation method in whole

or in part. The model selected should be based on intended use, basis of value and asset/liability being valued.

vii) **IVS 106: Documentation and reporting:** provides for the documentation and reports required.

viii) **IVS 400: Real Property Interests**: Which covers valuation of real property interests which include leasehold, freehold and right of way.

b) International Accounting Standards

The international Public Sector Accounting Standards (IPASs) are authoritative accounting standards issued by the International Public Sector Accounting Standards Board (IPSAB) for application by public sector entities. While IPSASs are largely drawn from the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), they are adapted to reflect the specific operational and reporting requirements of the public sector. IFRS and IAS are generally applied by commercially oriented public entities.

The main objective of IPSASs is to enhance transparency, accountability and comparability in public sector financial reporting by promoting the simplification and standardization of financial information. The following standards apply in the valuation for land and buildings;

i. The international Public Sector Accounting Standards (IPASs)

- **IPSAS 43: Leases** - Valuation of leased assets in public sector accounting.
- **IPSAS 45: Property, Plant, and Equipment** - Requires assets to be measured at cost initially. Subsequently, it considers Current Value models supported by the following valuation bases: Historical cost basis, Current Operational Value and Fair value. It provides for three approaches: The market approach, the Income approach, and the Cost approach.
- **IPSAS 46: Measurements:** define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The Standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.

ii. **International Accounting Standards (IAS)/ International Financial Reporting (IFRS)**

- **IFRS 13: Fair Value Measurement**- Emphasizes market-based measurement over entity-specific criteria.
- **IAS 16: Property, Plant, and Equipment** – Provides for recognition, measurement and depreciation charges. Revaluation requires updates to reflect current market values.
- **IFRS 16: Leases**: provided for measurement and recognition of leases.
- **IAS 40: Investment property:** provides for accounting and disclosure requirements.

2.2.3 Land and Buildings Valuation Practices in other Jurisdictions

Commonwealth countries generally follow a combination of local standards and internationally recognized frameworks for the valuation of land and buildings, including guidelines from the International Valuation Standards (IVS). Royal Institution of Chartered Surveyors (RICS) Standards (UK) also play a crucial role in real estate and government asset valuation. These standards ensure that asset valuations, especially for government land and buildings are credible, accurate, and conducive to sound financial and resource management.

The concept of valuation is a globally accepted and integrated practice in asset management. Particularly, the following jurisdictions have adopted valuation practices that provide salient lessons:

i. **United Kingdom:** Valuation of government land and buildings is guided by the Royal Institution of Chartered Surveyors (RICS) standards, with a focus on market comparison and depreciation methods.

ii. **Australia:** Utilizes market comparison and cost-based valuation methods for government-owned land and buildings, emphasizing transparency and public accountability.

iii. **United States of America**: Federal agencies rely on the Cost Approach and Income Approach for government property, with regular updates for consistency in valuation practices.

iv. **South Africa:** the valuation of land and buildings is primarily guided by the South African Property Valuers Profession Act (Act No. 47 of 2000) and overseen by the South African Council for Property Valuers Profession. Valuers adhere to local standards and international frameworks like the International Valuation Standards (IVS). Common valuation methods include market comparison, cost, and income approaches.

v. **Ghana:** land and buildings valuation is governed by the Valuation Act, 2018, with oversight from the Ghana Institution of Surveyors. The valuation process follows international standards such as IVS and RICS guidelines. Valuers typically use the market comparison, cost, and income approaches to assess property value.

vi. **Namibia:** the valuation and taxation of agriculture land is guided by the Constitution. The agriculture land reform Act provides a legislative framework on how commercial agricultural land is valued and taxed by the ministry responsible for agriculture and land reforms. All other land for commercial, residential and institutional purposes are valued and taxed by the local authorities in line with the Local Authorities Act.

vii. **Rwanda:** For purposes of IPSAS adoption, Rwanda used a centralized approach through the Ministry responsible for Finance on valuation of land, building and road transport equipment. The values were assigned to the data collected of land, buildings and road transport equipment using cost information or fair valuation information. Land was valued using open market prices of recent sales prices and also utilizing information from previous

valuation reports to calculate the land values. For all other assets, decentralized approach was adopted where the entities assign value to assets using cost (where cost information is available) or fair value as the deemed cost. Professional valuers or members of the IAVCs may also be engaged to assign values especially when cost information is not available.

However, these countries are faced with challenges of keeping up with rapidly changing market conditions and maintaining the accuracy of valuations amidst diverse asset types.

2.2.4 Current Valuation Practices in Kenya

Valuation Standards, known as "The Blue Book," aligns Kenyan valuation practices with International Valuation Standards and global best practices, ensuring transparent, ethical, and reliable valuations in the real estate sector. The valuation technical and performance standards are outlined under the Kenya Valuation Practice Standards (KVPS) and broken down into:

i. **KVPS 1** - Terms of Engagement ensures that the scope, purpose, and conditions of the valuation assignment are clearly agreed upon with the client before commencing work.

ii. **KVPS 2** – Due Diligence, Inspections, Investigations, and Records outlines the need for thorough property inspections, appropriate investigations, and maintaining detailed records to support the valuation process.

iii. **KVPS 3** - Valuation Reports emphasizes the importance of clear, concise, and comprehensive reports that detail methodologies, assumptions, and any limitations, aligning with the agreed terms.

iv. **KVPS 4** - Bases of Value defines the foundation for determining value, including concepts such as Market Value, Fair Value, and Investment Value, ensuring alignment with the valuation's purpose.

v. **KVPS 5** - Valuation Approaches and Methods details the different approaches and methodologies, such as the income, market, and cost methods, used to arrive at a reliable valuation outcome. The methods used include:

i. Market Approach

This valuation method is based on comparing the subject asset with identical or similar assets for which the price information is available, such as comparing with market transactions in the same area or closely similar type of asset within an appropriate time horizon. The valuer identifies comparable properties and adjusts the differences including location, size, condition, and market trends. The method is ideal for residential properties, small land plots and properties with good market activity. The method can however be difficult in markets with limited sales data or unique properties and requires careful adjustment for differences.

ii. Cost Approach

This method values a property based on the cost to replace or reproduce the improvements, minus the depreciation plus the land value. In this approach, the land value is estimated based on the market data or comparable sales, the cost to replace the building with a similar one in today's market, the depreciation on the physical, functional or economic is subtracted from the replacement cost and the final value gotten by adding the value of the land to the depreciated cost of improvements.

The method is ideal for new buildings, special use properties like schools and hospitals or unique properties where market-based data is insufficient. It must use credible cost data (construction, labour, materials) and provide appropriate adjustments for depreciation based on the property's condition. The method is however subject to the valuer's assumptions on depreciation and construction cost which may be influenced by external market factors.

iii. Income Approach

This is based on the present value of the future income generated by the property/ building. It's widely used for income producing assets like commercial real estates. It involves estimating the expected annual income from the building, deducting the operating expenses, applying the appropriate rate based on market conditions to determine the capitalization rate and considering the timing of the cash flows and discount rate to calculate the present value. The method is ideal for commercial properties and income generating assets.

The method requires careful consideration of market conditions and understanding of future income expectations, realistic forecasting and appropriate discount rates. The approach is highly sensitive to assumptions about future incomes, operating costs and discount rates.

iv. Residual Method

This approach estimates land value by subtracting development costs and desired profits from the projected value of a completed project. It involves estimation of the project value based on the anticipated market value of the completed development, deducting development costs involved (construction, permits, fees, and other necessary expenses). The difference represents the sum that can be paid for the land. The method is particularly useful for land with development potential but accurate cost estimation and market conditions are crucial for a reliable result. It is however sensitive to cost estimates and assumptions about future market conditions.

v. **Profits Method**

The method is primarily applied to specialized or income producing properties such as hotels, restaurants or any business where profits are a key indicator of value. It entails estimation of future profits that the property is expected to generate, adjusting the profits to reflect a sustainable level and capitalizing it to reflect risks, market conditions, and specific characteristics of the property. It is applied in specialized properties where direct sales data or cost-based approaches may not be appropriate or income generating businesses where the value is largely derived from the ability to

generate profit. However, the method requires accurate and reliable profit data which may not be readily available. The capitalization rate can also be subjective and heavily dependent on current market conditions.

In summary, the current valuation for land and buildings in Kenya is based on either market comparison, income or cost approach. Further, for purposes of imposition of rates on land and buildings by County Governments, the National Rating Act, 2024 provides for a valuation roll based on market values, updated every five years and may be extended for a period not exceeding two years subject to approval by the County Assembly.

Factors such as location, size, land use, accessibility, market demand, infrastructure, economic conditions and environmental considerations influence the land value. Land valuation in Kenya must be carried out by a valuer registered and licensed by the Valuers Registration Board.

2.3 RECOMMENDATIONS AND RATIONALE

To ensure accurate valuation for land and buildings, the following methods are recommended: the actual initial acquisition cost **(historical model)** and Market approach, Income approach, Cost approach, Profit and Residual **(current value model)** and should be tailored to the specific characteristics of public assets. Where the cost approach is adopted, the land value will be determined by market comparison. In addition;

i. Leverage on Land Value Index (LVI) as a general guide on the land values across Kenya. However, the expertise of valuers remains essential for accurate property valuation.

ii. Leveraging existing data, such as previous valuations and GIS data reducing time of inspection and report writing.

iii. Standardize Valuation Procedures: Enhance the efficiency of public asset valuation, it is essential to develop comprehensive policies, guidelines and templates that clearly outline the valuation processes.

iv. Use of innovation and Technologies - The integration of existing templates from the Ardhisasa system and leveraging on emerging technologies is highly recommended**.**

Financial Implication: Assets valuation may require payment of fees as provided in the Valuers Act, CAP 532. Government institutions which get funding from the exchequer and other sources pay valuation fees at half of scale of fees to The National Government.

Legal Implication: The land value index will require approval by the Parliament as provided in Section 107A of the Land Act (CAP 280).

Institutional Implication: The valuation for land and buildings is a technical role and therefore, the National and county governments should build the institutional capacities and offer technical assistance on valuation.

2.4 RESPONSIBILITIES

Institution	Responsibility
State Department responsible for matters Lands	National Lands Policy and Management Physical Planning for land use Land Transactions Survey and Mapping Land Adjudication Settlement Matters, Rural Settlement Planning Land Registration National Spatial Data Infrastructure Land and Property Valuation Services Land Administration. Develop the land value index
County Governments department responsible for matters lands and buildings	County planning and Development including statistics, land survey and mapping, boundaries and fencing, housing.
State Department responsible for matters Public Works.	Public Works Policy and Planning. Development and Management of Public Buildings. Setting and Management of Building and Construction Standards and Codes.
State Department responsible for matters Housing and Urban Development.	Housing Policy Management Development and Management of Affordable Housing Management of Building and Construction Standards and Codes
The National Land Commission.	Manage public land on behalf of the national and county governments. Recommend a national land policy to the national government. Assess tax on land and premiums on immovable property in any area designated by law. Monitor and have oversight responsibilities over land use planning throughout the country.
Valuers Registration Board	Regulate, license and supervise the valuation practice in Kenya in line with the Valuers Act
National Housing Corporation	Implementation of the government's housing policies and programmes.

CHAPTER III: PUBLIC INFRASTRUCTURE ASSETS VALUATION FRAMEWORK FOR THE PUBLIC SECTOR

3.1 INTRODUCTION

Public infrastructure assets are essential for fostering **economic development, enhancing public service delivery, and ensuring societal well-being**. These assets, which include critical sectors such as roads, energy, water, and telecommunications, are primarily **owned, operated, and maintained by the government or public entities**.

Properly valuing these assets ensures **efficient asset management, transparent financial reporting, and sound decision-making**. This framework provides a comprehensive approach to evaluating public infrastructure assets in Kenya, incorporating legal provisions, international best practices, accounting standards, and the specific needs of different asset categories, including electricity generation, drainage, water supply, solid waste management, aerodromes, and others.

Public infrastructure assets are long-lived public infrastructure assets owned or controlled by the government or public entities that provide essential services, such as transportation, energy, water, and waste management. Public infrastructure assets typically have the following distinguishing characteristics (i) networks or systems; and (ii) long useful lives.

Public infrastructure assets include:

i. **Road Infrastructure:** Roads, bridges, tunnels, culverts, traffic signals and controls systems
ii. **Railway Infrastructure:** Rail trucks, railway stations, tunnels, bridges, signals and control systems
iii. **Electricity Generation and Transmission and Distribution Infrastructure:** Power plants, electricity transmission, and distribution networks.
iv. **Flood Mitigation and Drainage Infrastructure:** Dams, levees (flood protection walls), canals, and storm water management systems.
v. **Water Infrastructure:** Water treatment plants, pipelines, reservoirs, and distribution systems.
vi. **Solid Waste Management and Sewerage Disposal Infrastructure:** Waste collection and processing facilities, sewage treatment plants, and sewerage networks.
vii. **Aerodromes and Airstrips:** Airports, airfields, and their associated infrastructure.
viii. **Seawalls and Jetties:** Coastal protection structures and ports.
ix. **Telecommunication Networks and Information Transmission Infrastructure:** Fibre-optic networks, mobile towers, and satellite systems.
x. **Oil and Gas Pipeline Infrastructure:** Pipelines, refineries, and storage facilities.
xi. **Supporting Infrastructure Accessories:** This includes all other public utility infrastructures not covered above, such as security lighting infrastructure, Border walls, Road signage and electronic message boards.

The framework also includes provisions for the periodic revaluation of these assets to account for changes in market conditions, technological advancements, and depreciation. This policy framework will exclude buildings and land used as wayleaves, intangible assets, and all other assets already captured in the relevant asset category, even though they may be part of the public infrastructure asset.

3.2 **OBJECTIVES**

Main Objective: The Public Infrastructure Assets Valuation Framework for Kenya aims to improve the country's public infrastructure's assessment, management, and sustainable development. The framework seeks to enhance asset management efficiency, ensure optimal resource allocation, and support informed infrastructure planning and maintenance decision-making.

Specific Objectives

i. Establish consistent, transparent, and reliable valuation methods for various infrastructure types like roads, bridges, water systems, and public buildings.
ii. Develop a framework that integrates both financial and economic valuation techniques, incorporating cost-benefit analyses that reflect not just financial costs but also broader social, economic, and environmental impacts.
iii. Implement lifecycle costing systems that consider the total cost of infrastructure assets, from design and construction to maintenance and decommissioning, ensuring long-term sustainability and efficiency in asset management.
iv. Enhance data collection and management systems using advanced technologies such as Geographic Information Systems (GIS), asset management software and Artificial Intelligence (AI) to provide real-time, accurate information on asset conditions, values, and performance.
v. Strengthen the skills and knowledge of professionals, government officials and asset managers while promoting collaboration between public and private sector stakeholders to ensure the effective adoption and application of the valuation framework.

3.3 **SITUATIONAL ANALYSIS**

3.3.1**Current Policy and Legal Framework**

Public infrastructure valuation in Kenya is guided by the following national laws, policies, and regulations:

i. **Constitution of Kenya (2010):** Establishes the principles of public finance and the equitable sharing of resources, guiding infrastructure investment and valuation. Specifically;

- Article 62(1)(h): Defines public land to include: "All roads and thoroughfares provided for by an Act of Parliament." Infrastructure includes roads, highways, and other infrastructure corridors under public ownership.
- Fourth Schedule – Distribution of Functions Between National and County Governments:
    - **National Government responsibilities include:** Transport and communications, including: Roads (international and national trunk roads), Railways, Ports, Airports, Energy policy (national electricity and gas reticulation), Public works (buildings and other infrastructure for national government services).
    - **County Government responsibilities include:** County transport, including: County roads, Street lighting, Traffic and parking, Public road transport.

ii. **Public Finance Management Act (PFMA) (Cap 412A):** Provides regulations for the efficient use and accountability of public resources, including the valuation of infrastructure for financial reporting and planning.

iii. **The Roads Act (Cap 408):** Mandates the Kenya National Highways Authority (KeNHA), the Kenya Rural Roads Authority (KeRRA), and the Kenya Urban Roads Authority (KURA) to manage roads under their respective jurisdictions, including assessing asset values.

iv. **Land Act (Cap 280):** Governs valuation during compulsory acquisition and management of government land.

v. **Urban Areas and Cities Act (Cap 275):** Guides infrastructure planning, development, and valuation within urban areas, ensuring alignment with economic and social objectives.

vi. **National Construction Authority Act (Cap 118):** Regulates construction standards for infrastructure projects, indirectly influencing valuation by ensuring quality and compliance.

vii. **Valuation for Rating Act (Cap 266):** Provides a framework for valuing government-owned properties for local taxation. Use the new one Rating Act

viii. **Public Procurement and Asset Disposal Act (Cap 412 C):** Provides for procurement and disposal of assets.

ix. **The Energy Act, 2019:** This act governs the electricity generation, transmission, and distribution infrastructure, including valuation provisions.

x. **The Water Act, 2016:** AN ACT of Parliament to provide for the regulation, management and development of water resources, water and sewerage services; and for other connected purposes.

xi. **The Kenya Civil Aviation Act (Cap. 394):** Governs the valuation of aerodromes and airstrips in Kenya.

xii. **Legal Notice No. 2 of 2016 issued on January 22, 2016 (Fourth Schedule)**: It outlines the road classification system, categorizing roads as either National Trunk Roads (Classes A, B, and C) or County Roads (Classes D, E, F, G, and others).

xiii. **Sessional Paper No. 10 of 2012 on Kenya Vision 2030**: This policy document outlines Kenya's long-term development blueprint, aiming to transform the country into a newly industrializing, middle-income nation by 2030. It emphasizes the importance of infrastructure development, including water and sewerage systems, to meet standards associated with a middle-income economy.

xiv. **Sessional Paper No. 9 of 2012 on the National Industrialization Policy Framework**: This paper focuses on strategies to promote industrialization in Kenya. It highlights the need for robust physical infrastructure, such as transportation networks and reliable energy supply, to support industrial growth and attract investment.

xv. **Sessional Paper No. 6 of 2024:** It focuses on the national aviation policy, covering regulatory framework, safety, and infrastructure.

3.3.2 International Best Practices

This section examines international best practices for managing public infrastructure assets and highlights globally recognized standards and approaches—such as the International Valuation Standards (IVS) and International Public Sector Accounting Standards—that guide asset valuation, maintenance, and investment planning.

a) International Valuation Standards (IVS)

i. **IVS 300 Plant, Equipment and Infrastructure** applies to valuations of plant and equipment in infrastructure assets.

• Market Approach

The market approach provides an indication of value by comparing the assets with identical or comparable (that is similar) assets for which price information is available. When comparable market information does not relate to the exact or substantially the same asset, the valuer must perform a comparative analysis of qualitative and quantitative similarities and differences between the comparable assets and the subject asset.

• Cost Approach

The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence. This approach should be applied and afforded significant weight under when the asset is not directly income-generating and the unique nature of the asset makes using an income approach or market approach not viable.

ii. **Annex to IVS 230** that addresses historic properties, highlighting the restrictions and obligations often associated with such assets, similar to specialized government properties.

iii. **Annexe to IVS 300** which focuses on property, plant, and equipment in the public sector, offering guidance on resolving valuation challenges through IPSAS 45 and 21 for financial reporting. These standards aim to bring consistency and clarity to the valuation of public sector assets.

b) International Accounting Standards

International accounting standards applied in public infrastructure assets valuation framework include:

i. International Public Sector Accounting Standards (IPSAS)

- **IPSAS 45 -** Property, Plant, and Equipment is the primary accounting standard for valuing public infrastructure assets. It provides two primary methods:
  a) **Cost Model:** Valuing assets at historical cost, adjusted for depreciation and impairment.
  b) **Revaluation Model:** Valuing assets at fair value, with regular revaluation to ensure the book value reflects market conditions.
- **IPSAS 23** - Revenue from Non-Exchange Transactions (Taxes and Transfers) applies to public infrastructure funded by government grants or other non-exchange revenue sources, affecting asset recognition and valuation.
- **IPSAS 31 – Intangible Assets:** Relevant for valuing intangible assets linked to infrastructure, such as software systems used in managing power grids or transportation networks.
- **IPSAS 46 - Measurement**: This standard presents a comprehensive measurement framework for public sector entities, offering principles and guidance on selecting suitable measurement bases for assets, liabilities, revenue, and expenses.

ii. International Accounting Standards (IAS) /International Financial Reporting Standards (IFRS)

a) **IAS 16:** Prescribe the accounting treatment for property, plant, and equipment.
b) **IAS 36:** Recognition of an impairment loss

3.3.3 **Public Infrastructure Assets Valuation Practices in Other Jurisdictions**

International best valuation practice for public infrastructure asset include:

i. **United Kingdom** uses the Market Approach Model (revaluation model) for public infrastructure, particularly in large-scale capital-intensive assets such as transport networks, and emphasizes regular condition assessments. Income and Cost Approaches for seaport assets are used.

ii. **Australia** uses the cost approach method (replacement cost method) for infrastructure assets, emphasizing the revaluation of long-lived assets such as roads and power plants.

iii. **Canada i**ncorporates the cost-to-replace model for valuing physical infrastructure assets and uses the income-based approach for assets that generate revenue, such as airports and utilities.

iv. **Germany** employs the HELLER Model, segmenting road valuation into components and determining maintenance and depreciation. The HELLER Model, developed by Dr. Slawomir Heller, helps municipalities value public infrastructure by assessing replacement costs, depreciation, and maintenance needs. Supporting Germany's Doppik system, it promotes transparency, sustainability, and long-term planning for non-revenue assets, aligning infrastructure management with modern budgeting and accounting practices.

v. **South Africa** uses the Depreciated Replacement Cost for non-market public assets, Fair Value for market-based assets, and the Income Approach for revenue-generating infrastructure.

Challenges these countries face include:

i. Complexity in Asset Management: Managing the large volume and diversity of assets (e.g., roads, airports, utilities) requires sophisticated systems and methodologies.

ii. Data Gaps: Many countries face challenges in obtaining accurate and consistent data on asset conditions and costs, which hinders valuation efforts.

iii. Market Variability: In periods of market volatility, accurately estimating the value of infrastructure can be difficult, particularly for income-generating assets.

iv. Government-owned infrastructure assets are rarely, if ever, exchanged in the market, making market value comparability challenging to establish.

v. Most government-owned infrastructure assets are held to provide a public service that does not generate income or any other directly tangible benefit.

vi. The most common valuation situations involve determining market value. Traditional economic value concepts fail to properly recognize the value of many government-owned assets to the community.

vii. While large capital investments are often allocated for the initial construction, consistent funding for maintenance is frequently deprioritized, leading to asset deterioration, higher long-term costs, and service delivery disruptions.

How the above challenges have been addressed

i. Implement integrated asset management systems and standardized frameworks to handle diverse assets by establishing unified systems and consistent methods to efficiently manage various types of assets.
ii. Conduct regular standardized asset assessments and invest in robust data systems. This is carried out through performing frequent, consistent evaluations and building strong data infrastructure for reliable asset tracking.
iii. Benchmark against similar assets to guide valuation under volatile conditions. By comparing with peer assets, estimation of value can be more accurately determined during uncertain market conditions.
iv. Leverage expert judgment and historical data for context and accuracy to improve the precision and relevance of asset valuations.
v. Value assets based on their ability to deliver services, following international public sector standards.
vi. The use public value frameworks and multi-criteria analysis to capture broader benefits. They achieve this by incorporating societal impacts and various evaluation criteria to reflect an asset's full public value.
vii. Plan for all lifecycle costs upfront to guarantee sustainable asset upkeep over time by applying whole-of-life costing to ensure maintenance is budgeted from the start.

3.3.4 **Current Valuation Practices in Kenya for Public Infrastructure Assets**

The following valuation approaches for the valuation of Public Infrastructure Assets are used:

- **Cost-based approach:** Includes construction costs, land acquisition, and replacement value, adjusted for depreciation and obsolescence.
- **Income-Based Approach:** Involves computation of the present value for expected future incomes for revenue-generating Public Infrastructure Assets
- **Social and Economic Impact Valuation:** Quantifies public benefits like reduced traffic congestion, lower emissions, and improved regional trade efficiency.

3.4 **RECOMMENDATION AND RATIONALE**

A hybrid approach that combines the historical cost model and the current value model is recommended for valuing public infrastructure assets.

Rationale: The hybrid approach balances accurately, reflecting replacement costs for long-lived physical assets and the income potential of infrastructure that generates revenue. This method aligns with international best practices and IPSAS provisions, ensuring accurate and fair valuation.

Financial Implications: The recommended valuation methods may require significant resources for data collection, asset assessment, and revaluation processes. For large-scale infrastructure,

periodic revaluation can be costly. The depreciation and impairment value will be recognized in the entity's income and expenditure statements.

Legal Implications: Adopting IPSAS and these valuation methodologies may necessitate changes to Kenyan legal frameworks, including the Public Finance Management Act and sector-specific regulations.

Institutional Implications: Public agencies will need to enhance their capacity in asset management, including adopting modern valuation techniques and data collection systems and training personnel in valuation procedures.

The Public Infrastructure Assets Valuation Framework ensures standardized valuation of Kenya's public assets for transparent reporting, effective management, and informed decision-making. It aligns with legal provisions, IPSAS, and international best practices, recommending a hybrid cost-income approach. Periodic reviews every 5–10 years ensure relevance amid evolving social economic conditions.

3.5 SPECIFIC RESPONSIBILITIES

National Government

- State Department for Public Works
- State Department for Roads,
- State Department for Transport
- Kenya National Highways Authority (KeNHA)
- Kenya Rural Roads Authority (KeRRA)
- Kenya Electricity Generating Company PLC (KenGen)
- Kenya Electricity Transmission Company (KETRACO)
- Kenya Power & Lighting Company
- Kenya Airports Authority (KAA)
- National Construction Authority (NCA)
- Relevant Professional Bodies i.e. Engineers Board of Kenya (EBK), Board of Registration of Architects and Quantity Surveyors (BORAQS) and Institution of Surveyors of Kenya (ISK)
- Government agencies that play a distinct role in the management, development, regulation, and oversight of water resources and services.
- Government agencies involved in Solid Waste Management (SWM) and Sewerage Disposal in Kenya at both the National and County levels.

County Governments

- County Government Ministries (e.g., County Ministry of Roads, County Ministry of Housing)
- County Public Works Departments

CHAPTER IV: MOTOR VEHICLES AND OTHER TRANSPORT ASSETS VALUATION FRAMEWORK FOR THE PUBLIC SECTOR

4.1 INTRODUCTION

The valuation of motor vehicles and other transport assets in the public sector is essential to ensure proper management, accountability, and optimal utilization of government assets. This framework outlines the methodology and approach for valuing motor vehicles and other transport assets owned by public entities. It seeks to standardize the process of asset valuation and provide a transparent, consistent, and legally sound approach to the valuation of motor vehicles and other transport assets in the public sector, ensuring compliance with national and international standards.

The scope of the valuation process will cover the following:

- Initial acquisition cost
- Subsequent expenditure
- Depreciation and amortization
- Market value estimation
- Revaluation for financial reporting purposes

Vehicle is defined any device or structure designed for transporting people, animals, goods, or equipment from one place to another. This includes both motorized and non-motorized forms of transportation, whether operated on land, water, or air.

Motorized vehicle is any self-propelled vehicle designed to transport persons or goods on public roads. The Traffic Act (Cap 403) defines a motor vehicle as any mechanically propelled vehicle, excluding those running on a specially prepared way like a railway or tramway, or those deriving power from overhead electric cables, or vehicles declared otherwise by rules under the Act.

Motor vehicles are powered either by internal combustion engines (which run on fossil fuels, liquefied petroleum gas (LPG), steam, hydrogen, etc.) or electric motors (which are powered by electricity or solar). These motor vehicles are used in the public sector for service delivery or operations.

Motorized vehicles are broadly classified as:

i. Motor vehicles, which are further classified as;
   a) Passenger vehicles, for instance, sedans, hatchbacks, SUVs, station wagons, minivans
   b) Commercial vehicles such as light commercial vehicles (e.g., small delivery vans), heavy commercial vehicles (e.g., low-loader trucks, lorries, dump trucks), buses and coaches
   c) Special purpose vehicles that include ambulances, fire trucks, police vehicles.

d) Utility and service trucks (e.g., garbage collection vehicles, maintenance vehicles)

ii. Rail Vehicles consist of trains and trams that run on tracks.

iii. Water Vehicles include boats, ships, and ferries used for transport on water.

iv. Air Vehicles include aeroplanes, helicopters, and drones used for air travel and operations.

v. Other motorized vehicles include motorcycles and three-wheeled vehicles.

Non-Motorized Vehicles includes any mode of transportation that does not have an engine or motor and is powered by human, animal, or natural forces (such as gravity or wind). These vehicles are commonly used for personal mobility, cargo transport, and recreational purposes. Valuing non-motorized transport vehicles ensures fair trade, insurance, taxation, and legal compensation. It supports economic planning, asset management, and sustainability.

Non-Motorized vehicles are generally classified as:

i. Human-Powered Vehicles (HPVs)

- Bicycles – Common worldwide for commuting, sports, and deliveries.
- Tricycles & Cargo Bikes – Used for carrying passengers or goods.
- Wheelbarrows & Handcarts – For carrying loads in markets and construction sites.
- Skateboards, Rollerblades and Scooters – For personal mobility and recreation.

ii. Animals Vehicles in Kenya

These refer to the use of the animal as a means of transport, where the animal itself serves as the mode of conveyance with no cart or wagon attached to it.

- Donkey - used to carry passengers and goods.
- Camel - used for transport and is essential for long-distance travel in arid areas
- Horses-used for riding, pulling carts, and carriages

iii. Animal-Drawn Vehicles in Kenya

- Horse Carts and Carriages – Used in tourism, transport, and agriculture.
- Oxen Carts – used to pull heavy loads, especially in farming and logging industries
- Camel carts – Common in deserts and rural areas.
- Donkey Carts – Common in rural areas, especially ASAL and hill terrain

iv. Wind-Powered Vehicles

- Hot air balloons, sail carts and Land Yachts – Wind-powered desert and coastal travel vehicles.

The term other transport assets will be used in this chapter to refer to all other forms of transport assets whether motorized or non-motorized but excluding motor vehicles.

4.2 OBJECTIVES

Main Objective: To establish a comprehensive valuation framework for motorized and non-motorized vehicles in Kenya to ensure transparent, accurate, and efficient management of public transport assets, enhancing accountability, asset optimization, and strategic decision-making in the public sector.

Specific Objectives:

1. Ensure that all motorized and non-motorized transport assets are accurately valued, fostering accountability in the acquisition, use, and disposal of government vehicles.
2. Improve the management and utilization of transport assets, including maintenance, refurbishment, or replacement, based on accurate asset valuations to ensure cost-effective operations.
3. Align asset valuation practices with national and international accounting standards to ensure proper financial reporting and regulatory compliance.
4. Guide asset replacement decisions in line with government policies such as environmental sustainability, fleet modernization, and low-emission programs, ensuring that valuations support long-term policy objectives.
5. Use asset valuation to optimize the allocation of transport resources across government departments and regions, ensuring that vehicles are deployed where needed most to enhance service delivery.

4.3 SITUATIONAL ANALYSIS

In Kenya, the management and valuation of motor vehicles and other transport assets in the public sector are governed by several national laws and regulations. Public Finance Management Act (Cap 412A) and the National Policy on Assets and Liabilities Management in the Public Sector (2020) and the Guidelines to this policy issued by the National Treasury mandate that public assets, including motor vehicles, must be acquired, managed, and disposed of in a transparent and accountable manner. Public entities are also required to report the value of their motor vehicles in their financial statements, as stipulated by these laws, to ensure proper asset management.

The Constitution of Kenya, particularly Article 10(2), anchors this policy on national values such as transparency, accountability, and economic efficiency. Article 201(d) emphasizes the prudent and responsible use of public resources, reinforcing the need for fiscal discipline.

The PFM Act (Cap 412A) specifies responsibilities for Accounting Officers of both National and County Governments and their respective entities (Sections 72 and 153) to manage assets efficiently, ensuring value for money in acquisition, usage, and disposal. However, the Transport Policy 2024 (draft) highlights weaknesses such as inadequate monitoring and evaluation frameworks, institutional inefficiencies in fleet operations, and a lack of a comprehensive vehicle inventory while remaining silent on the issue of vehicle valuation.

The Ministry of Roads and Transport provides the methodologies for carrying out the valuation of government vehicles for purposes of disposal, insurance and book value. However, these methodologies do not provide an exhaustive framework for motor vehicles and other transport assets valuation. Moreover, the Valuers Act, 2010, and the Proposed Valuers Bill, 2022, establish valuers' regulatory bodies but exclude ministries directly involved in vehicle valuation, hindering effective asset management. This gap in institutional collaboration limits the effectiveness of motor vehicle and other transport assets valuation in Kenya's public sector.

4.3.1 Current Policy and Legal Framework

In Kenya, several legislations govern motorized transport assets valuation and public finance management.

i. **Constitution of Kenya (2010):** Article 201(d) emphasizes the prudent and responsible use of public resources, reinforcing the need for fiscal discipline.
ii. **Public Finance Management Act (PFMA) (Cap 412A):** Sec 23 mandates valuation for asset management and public expenditure efficiency.
iii. **Public Procurement and Asset Disposal Act (Cap 412 C):** Sec 43 Provides for procurement and disposal of assets.
iv. **Valuers Act (Cap 532):** Regulates the profession of valuers' in Kenya, providing for registration, licensing, and ethical practice to ensure high standards in valuation services.
v. **National Treasury Policy and Guidelines** on Assets and Liabilities Management in the Public Sector (2020).
vi. **Subsidiary legislation and standards** i.e. circulars, gazette notices and executive orders etc.

4.3.2 International Standards

a) International Valuation Standards

i. IVS 300 Plant and Equipment:

This standard applies to the valuations of motor vehicles which is a class of plant and equipment under this standard.

b) International Accounting Standards

i. International Public Sector Accounting Standards (IPSAS)

a) **IPSAS 45** - Property, Plant, and Equipment: The standard recommends that on initial measurement, assets that meet the PPE recognition criteria assets be measured at cost. Subsequently, the entities will choose between the historical cost model or current value model measurement.

b) **IPSAS 21** - Impairment of Non-Cash-Generating Assets: This standard applies when the Net Realisable Value of an asset drops below its carrying amount, requiring recognition of an impairment loss.

c) **IPSAS 1** – Presentation of Financial Statements: Provides overall guidance on preparation of General Purpose Financial statements including presentation of Property Plant and Equipment on the Financial Statements.

d) **IPSAS 46** - Measurement: This standard introduces a comprehensive measurement framework for public sector entities, providing principles and guidance on selecting appropriate measurement bases for assets, liabilities, revenue, and expenses.

ii. International Accounting Standards (IAS) /International Financial Reporting Standards (IFRS)

a) **IAS 16:** Prescribe the accounting treatment for property, plant, and equipment.
b) **IAS 36:** Recognition of an impairment loss.

4.3.3 Motorized Transport Assets Valuation Practices in Other Jurisdictions

Several countries have implemented specific valuation methods for public sector assets, including motor vehicles and other transport assets:

i. **United Kingdom:** The Government Accounting Standards and the Treasury's Financial Reporting Manual provide guidelines for valuing assets, including motor vehicles, using a combination of historical cost, fair value, and depreciation

ii. **Australia:** The Australian Accounting Standards Board (AASB) adopts a similar approach to the UK, with specific guidance on valuing government-owned vehicles based on depreciated replacement cost (DRC).

iii. **South Africa:** Government entities apply a fair value model for motor vehicles under the Public Finance Management Act, emphasizing the need for regular revaluation of assets.

4.3.4 Non- Motorized Transport Assets Valuation Practices in Other Jurisdictions

i. **The USA and Europe** apply insurance-based standards that consider animal pedigree, equipment condition, usage, and heritage asset classification. Carriages often require registration and appraisals.

ii. **Mexico** values AVs as rural agricultural or cultural assets. Disaster relief programs use standardized asset compensation frameworks set by government agencies.

iii. **India's State**-run programs in Rajasthan and Bihar follow Panchayat-led valuation surveys. Health certification and registration standards may apply for subsidies, guided by agricultural asset norms.

iv. **Egypt** operates a dual system—informal local market prices and formal valuations for tourism carts, which require government registration and periodic licensing.

v. **Ethiopia** treats AVs as household assets. IFAD and the World Bank's development programs utilize household economy models to estimate value based on utility (e.g., the number of water trips per day).

4.3.5 Current Valuation Practice in Kenya for Motor Vehicles and Transport Assets

In Kenya, the Current Value Models and the Depreciated Replacement Cost (DRC) Method are used to value motor vehicles, reflecting the cost of replacing an asset with a similar one, adjusted for depreciation.

The Mechanical and Transport Directorate is responsible for valuing government motor vehicles. However, in the absence of a unified legal framework for animal valuation, subsidiary policies are applied, including the Insurance Act (Cap. 487) and Livestock Insurance Program (KLIP), which utilize satellite and market-based methods. County guidelines support livestock valuation for compensation or off-take. Additionally, the National Drought Management Authority (NDMA), Kenya Meat Commission (KMC), and Livestock Marketing Council provide valuation benchmarks and emergency pricing.

Despite these policies, challenges persist in Kenya and other countries, including the complexity of implementing fair value models, the cost of frequent revaluation, and difficulties in accurately assessing depreciation due to the absence of standardized data.

4.4 RECOMMENDATION AND RATIONALE

a) Motorized Transport Assets

Valuation of motorized transport assets in the public sector in Kenya should be based on the historical cost model and current value model.

i. The rationale behind this approach

DRC is more suitable for public sector entities that may not sell or trade their vehicles regularly.

It provides a more realistic representation of the asset's value in use. It aligns with IPSAS requirements and international best practices, ensuring compliance and transparency in financial reporting.

ii. Financial, Legal, and Institutional Implications of Proposed Valuation Method

- **Financial Implications:** Implementing the DRC method will require initial investments in the revaluation of assets and setting up a consistent valuation system. However, it will provide more accurate asset reporting and better financial decision-making for public entities.
- **Legal Implications:** Public entities must align their asset management practices with national laws (e.g., PFMA, Public Procurement Act) and IPSAS requirements. Regular updates to the vehicle inventory and valuations may be legally mandated to ensure compliance with reporting obligations.

- **Institutional Implications**: Public entities will need to develop or enhance their asset management capabilities to maintain up-to-date records of their vehicles, including regular revaluation, asset tracking, and depreciation schedules.

b) Non-Motorized Transport Assets

Animals that pull carts—such as oxen, donkeys, or camels used for transport or labor—are categorized as bearer biological assets because they provide services over multiple periods rather than being sold or consumed. These animals contribute to productive activities such as transportation, ploughing, and other forms of manual labor.

The recommended valuation approach for such animals involves applying both IAS 41 – Agriculture and IAS 16 – Property, Plant and Equipment. While IAS 41 governs the accounting treatment for biological assets, it primarily focuses on animals and plants held for sale or agricultural produce. However, when animals are used to provide services—such as pulling carts or working on farms—they are not classified as consumable or harvestable biological assets.

In such cases, IAS 16 becomes the applicable standard once the animal reaches maturity. According to IFRS guidance under IAS 41.10(c), bearer animals that are used to provide agricultural produce or services (like labor) should be measured under IAS 16 using the cost model. This means the animal's value is recognized at cost less accumulated depreciation and impairment losses, rather than at fair value. This treatment aligns with how other long-term productive assets are managed, ensuring accurate and consistent financial reporting.

4.5RESPONSIBILITY

- Chief Engineer Mechanical and Transport Directorate to value motor vehicle, motor cycles, etc
- The County Governments' Department Responsible for valuing this category of assets
- The State Department responsible for the valuation of the particular category of other transport assets
- (sub-group 3) to advice on the entity which will value biological assets

CHAPTER V: VALUATION POLICY FRAMEWORK FOR PLANT & MACHINERY

5.1 INTRODUCTION

The valuation of Plant & Machinery Assets in the public sector is essential to ensure proper management, accountability, and optimal utilization of government assets. Valuation is a crucial process that combines a set of multifaceted elements such as analytical, market and technical expertise. It determines not only the market value of the assets but also provide critical information for decision making, which involves determining the monetary worth for various purposes such as financial reporting, sale, purchase, taxation etc.

Plant: industrial equipment, systems, or installations used in manufacturing, construction, energy production, etc. Often includes fixed assets like generators, boilers, HVAC systems, and production lines.

Machinery: mechanical devices consisting of interrelated components used to perform specific operations or tasks (e.g., cutting, lifting, grinding). Usually includes moving parts and requires power to operate.

Plant and Machinery refers to tools, equipment, machines, appliances, and systems (fixed or movable) used to carry out industrial or workplace activities—especially those involving mechanical, electrical, or hydraulic operations.

Examples of Plants and Equipment in the public sector include.

Agricultural: planters, seeders, harvesters, sprayers, irrigation systems, storage equipment

Construction: earthmoving equipment, lifting equipment, concrete equipment

Mining: excavators, drilling rigs, crushers, conveyor belts etc.

Other General Machinery: Lifts used in buildings, Generators, etc.

This framework applies to all National Government, County Governments, and their respective public institutions that own, manage, or utilize Plant & Machinery assets within the Republic of Kenya. It covers all categories of Plant & Machinery equipment.

This framework shall guide the valuation, classification, recording, and reporting of Plant & Machinery assets to support effective asset management, financial reporting, and decision-making across the public sector. The valuation process scope covers the initial acquisition cost, depreciation and amortization, market value estimation and revaluation for financial reporting purposes.

5.2 OBJECTIVE

The main objective of this framework is to establish a standardized valuation process for Plant & Machinery within public sector entities, ensuring consistency, transparency, and accountability in asset management practices. The policy specifically aims to:

1. Ensure accurate and consistent reporting of the value of Plant & Machinery in government financial statements, in line with applicable accounting frameworks such as IPSAS 17 and IAS 16.
2. Align valuation methodologies with recognized international standards and best practices, including those outlined by the International Valuation Standards Council (IVSC) and relevant accounting guidelines.
3. Support informed financial decision-making regarding the acquisition, maintenance, replacement, and disposal of Plant & Machinery, for prudent financial management.
4. Ensure compliance with all applicable legal, accounting and valuation standards, and for public sector Plant & Machinery assets, while supporting audit readiness and transparency.

5.3 SITUATIONAL ANALYSIS

The management of plant and machinery assets in Kenya's public sector is governed by key legislative frameworks, including the Public Finance Management Act, 2012 and the Government Asset Management Regulations. These regulations mandate that all public assets be acquired, managed, recorded, and disposed of in a transparent, accountable, and value-for-money manner.

Public institutions are required to report the value of their plant and machinery assets in their financial statements in accordance with applicable national laws and International Public Sector Accounting Standards (IPSAS 17). This ensures accurate asset tracking, supports efficient resource allocation, and promotes informed decision-making in infrastructure and operational planning.

Sections 72 and 153 of the Public Finance Management Act, 2012 assign explicit responsibilities to Accounting Officers at both national and county levels to ensure the prudent use, recording, and valuation of public assets, including plant and machinery.

However, despite the existence of this legal framework, significant gaps and challenges persist in the management of plant and machinery assets in many government institutions:

- Inadequate asset monitoring and valuation systems, particularly for high-value or specialized equipment that is either underutilized or poorly maintained.
- Fragmented coordination among departments responsible for finance, engineering, procurement, and asset management.
- Absence of standardized national guidelines for the valuation and depreciation of diverse plant and machinery categories.

- Lack of updated and centralized asset inventories, resulting in difficulties in tracking the condition, location, and usage of assets.
- Delayed disposal and replacement cycles, leading to continued use of obsolete or inefficient machinery, which impacts service delivery and safety.

5.3.1 Existing Legal and Policy Provisions

Section 2 of the Occupational safety and Health Cap 236 A, Laws of Kenya, defines plant to include any equipment, gear, machinery, apparatus or appliance or any part thereof.

1. **Constitution of Kenya 2010**

The Constitution of Kenya defines "Plant and machinery," Articles 10, 201, and 227 provide the legal foundation for their transparent acquisition, valuation, usage, and disposal in public institutions. These constitutional values are operationalized through laws like the Public Finance Management Act and Public Procurement and Asset Disposal Act, which explicitly deal with asset management. Specifically:

i. **Article 201 – Principles of Public Finance**

This article is fundamental in guiding how all public resources, including plant and machinery, are managed. It emphasizes:

- **Accountability** in the use of public money.
- **Equitable sharing of resources**.
- **Prudent and responsible use of public assets**.
- **Transparency and public participation** in financial matters.

Relevance: Plant and machinery procured or owned by the government must be properly valued, managed, and recorded to support transparency and accountability in public finance.

ii. Article 227 – Procurement of Public Goods and Services

This article mandates that procurement (including of plant and machinery) must be:

- **Fair, equitable, transparent, competitive, and cost-effective**.
- Carried out in accordance with **legislation** such as the **Public Procurement and Asset Disposal Act (2015)**.

Relevance: Ensures that acquisition of plant and machinery follows proper procedures, with valuation playing a key role in determining fair pricing and value for money.

iii. Article 10 – National Values and Principles of Governance

Applies across all levels of public service and includes: Good governance, Integrity, Accountability and Sustainable development. These values guide the responsible acquisition, management, and disposal of plant and machinery assets.

iv. Article 62 & 66 – Public Land and Regulation of Property

While primarily land-related, these articles allow the state to regulate property use in the public interest, which may include installations of public infrastructure and machinery.

2. **Income Tax Act, Cap 470**

- For capital allowances, plant and machinery must be valued to determine their written down value (WDV) or qualifying cost for purposes of depreciation.
- Accurate valuation ensures compliance with capital allowance rates under Kenyan tax law.

3. **Public Finance Management Act, Cap 412A**

- Public entities must accurately value plant and machinery for proper accounting, budgeting, and reporting of assets.

4. **Movable Property Security Rights Act, Cap 499A**

- Governs the use of movable property (including plant and machinery) as collateral for loans.
- Establishes the *Movable Property Registry*, where machinery and equipment can be registered as security.
- Provides clarity on ownership rights, priorities, and enforcement of security interests.

5. **Occupational Safety and Health Act (OSHA), Cap 236A**
    a. Employers must ensure that all plant and machinery are safe for use by employees.
    b. Regular inspection, maintenance, and compliance with **safety standards** are required.
    c. Employers must provide proper training to employees operating machinery.
6. **Factories and Other Places of Work (Safety and Health) Rules, 2004.**
    d. Additional rules on safe installation, operation, and maintenance of machinery in workplaces.
7. **Public Procurement and Asset Disposal Act, Cap 412C**
    e. Governs the procurement and disposal of plant and machinery by public entities.
    f. Ensures transparency, accountability, and value for money in the acquisition of machinery.

5.3.2 International Standards

This section considers provisions in the international valuation standards and international accounting standards in relation to valuation of plant and machinery.

a) International Valuation Standards

The International Valuation Standards (IVS) specifically relevant to plant and machinery assets, as issued by the International Valuation Standards Council (IVSC). These standards provide globally accepted guidelines for valuing plant and equipment across sectors and jurisdictions.

i. **IVS 300 – Plant and Equipment**

This is the **primary standard** for the valuation of plant and machinery. It provides principles and guidance for identifying, classifying, and valuing physical assets such as Heavy machinery, Manufacturing equipment, Vehicles, Tools and Processing plants

ii. **IVS 104 – Bases of Value**

This standard defines the **bases of value** commonly used in plant and machinery valuations:

- **Market Value:** The estimated amount for which the asset should exchange between a willing buyer and a willing seller.
- **Replacement Cost New (RCN):** Cost to replace the asset with a new one having similar utility, adjusted for depreciation.
- **Fair Value:** Commonly used for financial reporting in compliance with IFRS or IPSAS.
- **Liquidation Value:** Value if the asset is sold under forced-sale or liquidation conditions.

iii. **IVS 105 – Valuation Approaches and Methods**

Outlines the three approaches to value, and how they apply to plant and machinery:

- **Cost Approach:** Often preferred when valuing assets that are not frequently sold in the market. It includes: Replacement Cost New and Less Depreciation (physical, functional, economic)
- **Market Approach:** Compares the asset to similar items that have recently sold.
- **Income Approach:** Used when the asset generates identifiable income (e.g., power generation equipment leased to others).

iv. **IVS 101 – Scope of Work:** Defines what should be included in a valuation assignment**.**

b) International Accounting Standard

i. International Public Sector Accounting Standards (IPSAS)

International Public Sector Accounting Standards (IPSAS) provide a comprehensive framework for the recognition, measurement, and disclosure of public sector assets, including **plant and machinery assets**.

- **IPSAS 45 is the applicable standard for Property, Plant, and Equipment**, under which plant and machinery are classified. The standard provides that such assets should be recognized at **historical cost** (including purchase price, import duties, and directly attributable costs to bring the asset into operational condition). These assets should be **depreciated over their useful lives** based on usage, wear and tear, or expected technological obsolescence. In addition, assets may be **revalued to fair value** if required by national asset management policies or internal financial reporting frameworks. Disclosures in financial statements must include information on **valuation methods and key assumptions** used.

- **IPSAS 21 on Impairment of Non-Cash-Generating Assets** is applicable when the **service potential** of a plant or machinery asset diminishes—such as through physical damage, technological redundancy, or underutilization. Entities are required to recognize **impairment losses** and adjust the asset's carrying amount accordingly.

- **IPSAS 46 on Measurement** provides guidance on selecting the most appropriate **measurement basis** for plant and machinery (e.g., historical cost or fair value), improving consistency in valuation decisions and enhancing comparability across reporting periods and institutions

- **IPSAS 30 on Financial Instruments: Disclosures** (where applicable) supports the broader framework of public sector financial reporting by promoting transparency in how assets, including plant and machinery, are valued and disclosed within financial statements.

ii. International Accounting Standards (IAS/IFRS)

- **IAS 16 Property, Plant, and Equipment** governs the accounting for plant and machinery. It outlines the principles for the **initial recognition**, **subsequent measurement**, and **depreciation** of these tangible assets. Plant and machinery must be recorded at **cost**, and organizations have the option to apply the **cost model** or the **revaluation model** after initial recognition.

- **IAS 36 – Impairment of Assets** requires entities to assess whether plant and machinery assets are impaired. If the **carrying amount** exceeds the **recoverable amount** (i.e., higher of fair value less costs to sell and value in use), the asset must be written down and the impairment loss recognized in the financial statements.

5.3.3 International Best Valuation Practices in other Jurisdictions

The United Kingdom demonstrates early and full adoption of the International Financial Reporting Standards (IFRS), including IAS 16, for asset recognition and valuation. The country adheres to the Royal Institution of Chartered Surveyors (RICS) valuation standards, which are considered global benchmarks. Public and private sector entities maintain strong asset tagging systems and inventory management practices. In the public sector, component accounting is mandatory, and regular revaluations of assets are standard practice, ensuring transparency and accountability.

Australia follows AASB 116, which aligns closely with IAS 16, ensuring consistency in accounting for property, plant, and equipment. The public sector is highly regulated with stringent asset reporting and valuation requirements. The country extensively applies the Depreciated Replacement Cost (DRC) method, particularly for specialized plant and machinery assets. Australia also benefits from a well-established plant and equipment valuation profession, supported by the Australian Property Institute (API).

Canada applies IFRS for publicly accountable enterprises and emphasizes the integration between engineering and valuation disciplines in managing plant and machinery. Organizations are encouraged to maintain comprehensive fixed asset registers and implement robust asset lifecycle management systems. Valuation standards are governed by the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP).

Germany primarily uses HGB (German GAAP), although IFRS is adopted by listed companies. There is a strong emphasis on conducting technical condition assessments of machinery as part of asset management. Germany is known for integrating preventive maintenance strategies into asset valuation models and for using advanced life cycle costing methodologies to determine asset value and operational efficiency.

Singapore has fully adopted IFRS, locally known as Singapore Financial Reporting Standards (SFRS). The country is recognized for its seamless integration of Enterprise Resource Planning (ERP) systems, such as SAP, in fixed asset management. In the public sector, asset revaluations are conducted under clear regulatory frameworks, supporting a culture of accuracy and control in asset accounting and valuation.

New Zealand is a pioneer in applying the Depreciated Replacement Cost (DRC) method within the public sector. The country maintains a strong focus on fair value accounting in alignment with both IPSAS and IFRS. Practices such as regular asset revaluations and physical verifications are institutionalized, ensuring reliable and updated asset records across the public sector.

United States (U.S.): Although the United States operates under U.S. Generally Accepted Accounting Principles (US GAAP) instead of IFRS, its asset accounting principles for fixed assets share similarities with IFRS. The U.S. has a highly regulated environment for public companies and governmental entities, with a strong emphasis on capitalization thresholds, impairment testing, and maintaining detailed audit trails. These standards help ensure financial integrity and operational accountability in managing plant and machinery assets.

5.3.4 Current Valuation Practices in Kenya

The valuation of plant and machinery assets in Kenya is anchored on a robust legal and professional framework that ensures accuracy, consistency, and transparency in asset management and reporting. The following key instruments guide the in the local valuation practice:

1. **Valuers Act (Cap 532)**

The Valuers Act is the primary legislation governing the registration and regulation of professional valuers in Kenya. It establishes the Valuers Registration Board, which is responsible for licensing, maintaining professional standards, and overseeing compliance within the valuation profession. All individuals undertaking the valuation of plant and machinery must be registered and recognized by the Board.

2. **Institute of Surveyors of Kenya (ISK)**

The ISK is the recognized professional body for valuers in Kenya. It provides ethical, technical, and operational guidance to its members. Through its adoption of the Kenya Valuation Practice Standards (KVPS), ISK standardizes valuation practices, ensuring that plant and machinery valuations are undertaken using recognized methodologies, supported by thorough documentation and professional conduct.

3. **Chief Engineer (mechanical & Transport).**

Chief Engineer (mechanical & Transport) carries out valuation of plant and machinery for all public entities for purposes of disposal, accounting purposes and loan purposes.

4. **Kenya Revenue Authority (KRA) and Public Sector Accounting Regulations**

Valuations of plant and machinery also fall under the purview of KRA and the Public Finance Management Act, 2012, which stipulates that all government assets must be accurately recorded and reported. Asset valuation supports functions such as taxation, budgeting, depreciation, and

public accountability. Proper valuation ensures compliance with fiscal reporting requirements and provides the basis for sound financial decision-making.

5. **International Valuation Standards (IVS)**

The valuation profession in Kenya aligns itself with global best practices through the adoption of the International Valuation Standards (IVS). These standards, referenced within ISK's "Blue Book", provide comprehensive guidance on recognized valuation approaches, assumptions, reporting standards, and ethical practices. This alignment ensures that valuations conducted in Kenya are internationally credible and consistent with global standards, particularly in cross-border and multinational reporting contexts.

6. Key Valuation Standards Applied to Plant and Machinery in Kenya

The valuation of plant and machinery assets in Kenya adheres to the guidelines outlined under the Kenya Valuation Practice Standards (KVPS). These standards, developed and enforced by the Institute of Surveyors of Kenya (ISK), provide a uniform framework for ensuring transparency, consistency, and reliability in the valuation process.

The following are the key standards applicable to the valuation of plant and machinery:

KVPS 1 – Terms of Engagement

This standard emphasizes the importance of clearly defining the terms of engagement prior to commencing any valuation exercise. The valuer must agree with the client on the purpose, scope, assumptions, limitations, and deliverables of the assignment. This ensures that both parties have a shared understanding of expectations, timelines, and reporting requirements.

KVPS 2 – Inspection and Documentation

A physical inspection of all plant and machinery is mandatory under KVPS 2. During the inspection, valuers are required to document key asset characteristics including:

- Make, model, and serial number
- Operational condition and maintenance history
- Year of manufacture and usage capacity
- Location and installation environment

The collected data supports accurate asset profiling and informs the selection of appropriate valuation approaches.

KVPS 3 – Valuation Reports

Valuation reports must be clear, objective, and comprehensive. They should include:

- The methodology employed

- All assumptions and limiting conditions
- Supporting evidence such as photographic documentation, condition assessments, and depreciation schedules

These elements ensure transparency and provide the necessary audit trail for verification and compliance purposes.

KVPS 4 – Bases of Value

The standard provides guidance on the selection of appropriate bases of value. For plant and machinery assets, the following bases are commonly applied:

- Market Value – where there is an active second-hand market
- Fair Value – for financial reporting and public accountability
- Depreciated Replacement Cost (DRC) – typically used for specialized, custom-built, or older machinery where active markets do not exist

KVPS 5 – Valuation Approaches and Methods

This standard outlines the acceptable valuation methods for plant and machinery assets:

- Cost Approach (Depreciated Replacement Cost) – Ideal for unique or specialized machinery.
- Market Approach – Used where comparable sales data is available.
- Income Approach – Applied selectively for income-generating equipment or leased assets.

7. Valuation approaches and methods used in Kenya

i) Cost Approach (Depreciated Replacement Cost - DRC)

The Cost Approach estimates the value of plant and machinery based on the cost to acquire a new, modern equivalent asset, adjusted for **physical deterioration**, **functional obsolescence**, and **economic obsolescence**. The cost is calculated by determining the replacement cost of a new asset and deducting depreciation based on its condition, usage, and age.

ii) Market Approach

The Market Approach values plant and machinery by comparing it to similar assets that have been sold or are currently available for sale in the market. It relies on available data regarding recent transactions, auctions, or resale prices of comparable machinery.

iii)Income Approach

The Income Approach determines the value of plant and machinery based on the expected future

economic benefits the asset will generate. This includes income generated from the asset's use, or cost savings achieved by its operation.

5.4 RECOMMENDATIONS

Plant and Machinery be valued using fair value model and current operational approaches as explained below:

- **Depreciated Replacement Cost (DRC) Approach:** This method is highly recommended for specialized machinery, older equipment, or assets with limited market comparable. It calculates the cost of replacing the asset with a modern equivalent, adjusting for depreciation, wear and tear, and obsolescence. It provides an accurate valuation where market transactions are sparse or unavailable.
- **Market Approach:** Where applicable, the market approach should be used to compare the asset with similar plant and machinery in the open market. This is effective for standardized machinery such as vehicles, generators, and small-scale industrial machines with accessible market data.
- **Income Approach:** For income-generating machinery, such as leased equipment or machinery used in public-private partnerships, the income approach should be applied. This approach determines the asset's value based on expected future income or cost savings, making it ideal for income-producing assets.
- **Historical Valuations:** Referencing past valuations of similar assets or the same asset over time can provide valuable insights into trends in asset depreciation, market conditions, and operational value, helping to ensure consistency in future valuations.
- **Use of Manufacturer Specifications and Standards:** Incorporating manufacturer details, specifications, and guidelines can help valuers determine the accurate cost to replace an asset with a similar or equivalent model, considering the asset's age, technology level, and capacity.
- **Implement Regular Revaluations:** Plant and machinery should be periodically revalued to ensure that asset values reflect current market conditions and technological advancements. This is particularly crucial for machinery subject to rapid obsolescence or technological change.
- **Financial implication:** Ministries, Departments and Agencies and County Governments which get funding from the Exchequer and other Government-approved sources should pay relevant valuation fees to the national Government as provided for in the enabling legislations.

5.5 RESPONSIBILITIES

Institution	Role of the Institution
Ministry of roads and Transport	National roads development and transport management Policy
The Mechanical and Transport Directorate	Carries out valuation of plant and machinery Develops technical specifications for plant and machinery

	Carries out mechanical inspection reports for plant and machinery
Kenya Bureau of Standards	Develops and enforces quality and safety standards for plant and machinery imported or used in Kenya.
Public Procurement Regulatory Authority	Provides guidelines for procurement of plant and machinery in public institutions.
Kenya Revenue Authority	Regulates import duties, VAT, and compliance on plant and machinery - related imports.
National transport and safety authority(NTSA)	Registration of earth moving plants, where applicable

CHAPTER VI: VALUATION POLICY FOR INFORMATION COMMUNICATION TECHNOLOGY (ICT) EQUIPMENT

6.1 INTRODUCTION

The ICT Asset Valuation Policy provides a structured framework for the identification, valuation, and financial reporting of Information and Communication Technology (ICT) assets within public institutions in Kenya. As digital infrastructure continues to play a vital role in service delivery, accurate valuation of ICT assets—including computers, mobile devices, networking equipment, and software—is critical for enhancing transparency, ensuring fiscal accountability, and supporting informed decision-making. The policy aligns with national regulations such as the Public Finance Management Act (2012), the Government Asset Management Guidelines, and relevant international accounting standards including IPSAS 31 and IPSAS 17. It aims to standardize valuation practices, promote asset optimization, and ensure that ICT investments are effectively tracked, reported, and safeguarded across their lifecycle.

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

These are tangible electronic devices used for information and communication technologies. There are two components denoting ICT assets namely; -

- As Tangible assets being defined by the hardware and physical components
- Auxiliary ICT components such Power UPS and backup

ICT Equipment refers to the hardware used for information processing, communication and related activities. This equipment includes;

1. Computers – desktops, laptops and workstations
2. Auxiliary ICT components such as Power UPS (Uninterruptible Power Supply

However, ICT Equipment under this section excludes:

1. Mobile devices- smart phones and tablets
2. Printers, scanners and Copiers
3. Audio visual equipment – monitors, projectors, speakers, video conference systems
4. Storage devices – hard drives, network attached storage (NAS)
5. Networking equipment – telephone systems

This policy applies to all public sector entities in Kenya including Ministries, Departments, Agencies (MDAs), and County Governments. It is applicable to both central and devolved units that acquire, manage, or dispose of ICT assets using public funds. The policy serves as a guiding framework for Accounting Officers, ICT Managers, Asset Managers, Internal Auditors, and Procurement Officers responsible for maintaining accurate ICT asset records and valuations in accordance with applicable legal and financial standards.

6.2 OBJECTIVE

The primary objective of the ICT Asset Valuation Policy is to provide a standardized and transparent framework for the identification, valuation, and financial reporting of ICT assets in public institutions. Specifically, the policy aims to ensure accurate asset valuation for budgeting, auditing, and decision-making purposes, while also promoting accountability, compliance with national and international financial reporting standards (such as IPSAS 17 and IPSAS 31), and efficient lifecycle management of ICT infrastructure.

The policy is designed to:

- Support compliance with the Public Finance Management Act, 2012, Public Procurement and Asset Disposal Act, 2015, and related government regulations.
- Align ICT asset valuation practices with International Public Sector Accounting Standards (IPSAS), specifically IPSAS 17 (Property, Plant, and Equipment) and IPSAS 31 (Intangible Assets).
- Enhance the accuracy of financial reporting, insurance, budgeting, and audit processes involving ICT assets.

6.3 SITUATIONAL ANALYSIS

6.3.1 Current Policy and Legal Provisions Framework in Kenya

In Kenya, several legislations and policies govern ICT valuation:

Constitution of Kenya 2010 This is the supreme law of the Republic and binds all persons and all State organs at all levels of government. The policies and laws should conform to the provisions of the Constitution.

- **Article 260**, the Constitution defines "property" to encompass both tangible and intangible assets, which includes intellectual property rights associated with ICT assets.
- **Article 40(5)** obligates the State to support, promote, and protect the intellectual property rights of the people of Kenya. This constitutional recognition underscores the importance

of safeguarding ICT assets, particularly those of an intangible nature, and implies the necessity for their proper valuation to ensure their protection and optimal utilization.

Section 95(3)(k) of the Basic Education Act, 2013 provides for the promotion, development, management and governance of education through ICT Integration to provide a framework that promotes utilization of ICT in management of educational institutions.

Public Procurement and Asset Disposal Act, 2015 - Guides acquisition of ICT equipment and services in the public sector.

- **Section 64** addresses the use of Information and Communication Technologies (ICT) in procurement and asset disposal proceedings. This section permits the utilization of ICT for various purposes, including the publication of notices, submission and opening of tenders, tender evaluation, and dissemination of laws and regulations

Public Procurement and Asset Disposal Regulations, 2020. This regulation mandates the preparation of detailed schedules of requirements and specifications for ICT equipment by the relevant authorities at both national and county government levels. It also emphasizes that such equipment should be environmentally friendly and that costs related to servicing, maintenance, and disposal should be specified.

- **Regulation 175** For specific guidelines on the procurement and management of ICT equipment and related accessories.

Data Protection Act, 2019 - Controls collection, storage, and use of personal data on computer systems.

- **Section 41** of the Act outlines the requirement for data controllers and data processors to integrate data protection measures into their processing activities. This includes considering factors such as the amount of personal data collected, the extent of its processing, and the period of its storage. While the term "ICT assets" is not directly used, the Act's provisions necessitate the safeguarding of all assets involved in data processing, which encompasses ICT systems and infrastructure

Computer Misuse and Cybercrimes Act, 2018 - Addresses hacking, online fraud, and illegal access of computer systems.

a. **Section 9: Critical Information Infrastructure**:

- This section mandates the designation and protection of critical information infrastructure, referring to vital virtual assets, facilities, systems, networks, or processes whose compromise could significantly impact national security, defense, or the functioning of the state.

b. **Section 10: Protection of Critical Information Infrastructure**:

- It outlines measures for safeguarding these critical infrastructures, including risk assessments and the implementation of appropriate security controls.

c. **Section 67: Forfeiture**:

- This section provides for the confiscation or forfeiture of assets, including computer systems or data, used in the commission of offenses under the Act.

The National ICT Policy of 2019 outlines the policy of the Government of Kenya in relation to the design, development, acquisition, deployment, operation, support and evolution of public and private ICTS. It defines the current and forward-looking position of the government on various areas of the evolving and emerging technology landscape in Kenya.

The Kenya Vision 2030 aims at transforming Kenya into an industrialized middle-income economy, and one of the strategies to realize this long-term development agenda is to embrace ICT in education and training.

- **Development of Konza Technopolis:**

Envisioned as a technology hub, Konza Technopolis aims to position Kenya as Africa's ICT leader. The project includes the construction of a Business Process Outsourcing (BPO) park, science park, residential areas, and essential infrastructure such as roads, telecommunications, and utilities.

The Technical Vocational Education and Training Act, 2013 recommends for integration of ICT to improve access and training capacity across the TVET sector

- **Section 4(c)(iii)** highlights the importance of incorporating ICT to enhance training accessibility and delivery. This provision underscores the Act's recognition of ICT resources as vital components in modernizing and improving vocational education and training.

The Science, Technology and Innovation Act, 2013 mandates the National Commission for Science, Technology and Innovation to regulate and assure quality in the science and technology sector. This policy provides for the promotion of research, innovation and entrepreneurship in order to meet the ICT needs of learners and trainees

- Establishment of the National Commission for Science, Technology, and Innovation (NACOSTI): The Act establishes NACOSTI, which is responsible for regulating and coordinating scientific research, including aspects related to technology and innovation. This includes overseeing the development and management of technological infrastructure, which encompasses ICT assets.
- Establishment of the National Research Fund (NRF)**:** Section 32 of the Act establishes the NRF, which provides funding for research activities, including those in the field of ICT. This supports the development and enhancement of ICT infrastructure and resources

The Sessional Paper No. 1 of 2019 provides for integration of ICT in education, training, research, teaching and learning at all levels, and underscores the utilization of ICT in transforming education. It also highlights the challenges of access, quality, relevance and equity that the education system faces.

6.3.2 International Standards

International Valuation Standards (IVS) and international public Sector Accounting Standards used in best practices are discussed in this section:

a. International Valuation Standards (IVS)

i. ***IVS 300 on Plant and Equipment***, which applies to valuations of plant and Equipment in ICT equipment

This standard applies to the valuation of tangible assets, including ICT equipment, which is considered a class of plant and equipment. It outlines principles for determining fair value, including approaches such as:

- Cost Approach –The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence. This approach should be applied and afforded significant weight under when the asset is not directly income-generating and the unique nature of the asset makes using an income approach or market approach unfeasible based on the replacement cost of equivalent ICT equipment.
- Market Approach – The market approach provides an indication of value by comparing the assets with identical or comparable (that is similar) assets for which price information is available. When comparable market information does not relate to the exact or substantially the same asset, the valuer must perform a comparative analysis of qualitative and quantitative similarities and differences between the comparable assets and the subject asset.
- Income Approach – is a valuation method based on the future income an asset is expected to generate. Though **rarely used for ICT assets**, it can be applicable **when these assets directly produce revenue**, such as software platforms, licensed systems, or data centers offering paid services. This involves in estimating future cash flows from the ICT asset and discounting those cash flows to present value using an appropriate rate (e.g., risk-adjusted discount rate).

ii. ***IVS 210 –*** Intangible Assets under the International Valuation Standards (IVS) can indeed be applied to ICT assets, especially when those assets include or rely on intangible components such as:

- Software and operating systems
- Technical data and databases
- Licenses and patents
- Proprietary algorithms or platforms

b. International Accounting Standards

International valuation and accounting standards applied in public ICT Equipment assets valuation framework include:

i. International Public Sector Accounting Standards (IPSAS)

International Public Sector Accounting Standards (IPSAS) provide a framework for the recognition, measurement, and disclosure of public sector assets, including ICT assets.

a) **IPSAS 45 -**, titled "Property, Plant, and Equipment," provides comprehensive guidelines for the recognition, measurement, and disclosure of tangible assets in the public sector. Technology (ICT) equipment, such assets fall under its scope as they meet the definition of property, plant, and equipment (PPE)

   Cost Model: The asset is carried at its cost less any accumulated depreciation and any accumulated impairment losses.
   Current Value Model: The asset is carried at a revalued amount, being its current operational value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

ii. International Accounting Standards (IAS/IFRS)

IAS 16 on Property, Plant, and Equipment governs the recognition, measurement, and depreciation of tangible assets, including ICT Equipment. IAS 16 provides for assets to be measured at cost basis and fair value basis.

Subsequent Measurement of ICT Assets;
i. Cost Model
Under the cost model, the ICT asset is carried at:
- Its cost (i.e., the initial cost incurred to acquire and install the asset).
- Less any accumulated depreciation (which reflects wear and tear over time).
- Less any impairment losses.

This is the most common model for ICT assets like computers and servers.

ii. Revaluation Model

The revaluation model allows entities to carry ICT assets at their revalued amount, i.e., the fair value at the date of revaluation, less any subsequent depreciation and impairment. This model is more commonly used for real estate but can be applied to ICT assets if they are subject to regular and reliable revaluation.

6.3.3 International Best Valuation Practices in other Jurisdictions

International best valuation practice for ICT Equipment asset include:

i. **Germany:** applies IFRS for financial reporting and follows IVS for asset valuation. The German Institute of Auditors (IDW) provides guidance for valuing ICT assets, particularly intangible assets such as intellectual property and proprietary technologies**.**

ii. **Canada:** uses IFRS for publicly listed companies and has clear guidelines for ICT assets valuation, including intangible assets like software and patents. The Canadian Institute of Chartered Business Valuators (CICBV) helps define best practices. ICT assets are depreciated over their useful life.

iii. **Australia:** adopts IFRS and International Valuation Standards (IVS), with organizations like the Australian Property Institute (API) ensuring strong valuation practices for ICT assets. Australia applies uses the Cost model and Depreciation Replacement Cost in valuation of ICT assets and Amortization for software.

iv. **Hong Kong:** follows both IFRS and IVS standards for valuing ICT assets, aligning with international practices. It is a major player in Asia's financial sector, known for its well-established asset valuation methods, especially for intellectual property and software.

v. **United Kingdom:** follows IFRS (IAS 16 and 38) and uses the Whole of Government Accounts (WGA). It also uses componentization for complex IT systems. UK applies the Cost model, Revaluation Model (if assets fluctuate in value) and DRC (Depreciated Replacement Cost) for custom IT infrastructure.

vi. **New Zealand:** follows the fair value accounting for ICT and has strong fixed asset management system. ICT assets are revalued regularly. The following valuation methods are used for ICT assets; DRC (Depreciated Replacement Cost) for custom and aging infrastructure; Market Value (for standard assets) and Straight-line Depreciation.

vii. **Singapore:** ICT assets are tightly integrated with ERP (Enterprise Resource Management) and digital government systems. ICT Asset classification is clear and aligned with IFRS. Valuation based on system criticality and lifecycle and revaluation is done only when material difference exists. Singapore uses the following valuation methods; Cost Model; Capitalization of system upgrades and Software valued under IAS 38.

viii. **South Africa:** follows IFRS and IVS, with regulatory bodies like the South African Institute of Valuers (SAIV) and the South African Institute of Chartered Accountants

(SAICA) ensuring transparent and consistent valuation of ICT assets. Government departments follow Modified Cash basis of accounting under IPSAS. ICT hardware are capitalized and depreciated based on government policy and the National Treasury provides asset management frameworks. They use Cost Model, aligned with IFRS.

6.3.4 Current Valuation Practices in Kenya

The management of ICT assets in the public sector in Kenya is governed by various laws and regulations. These include the Public Finance Management Act, 2012 and its Regulations, which provide that public assets must be acquired, managed, recorded, and disposed of in a transparent and accountable manner. Sections 72 and 153 of the Public Finance Management Act, 2012 assigns clear responsibilities to Accounting Officers at both national and county government levels to ensure efficient use, recording, and valuation of public assets.

Public entities are required to report the value of their ICT assets in their financial statements in accordance with national laws and in compliance with International Public Sector Accounting Standards (IPSAS 45) and International Financial Reporting Standards (IAS 16) to ensure accurate asset management, efficient budgeting, and informed decision-making in the public sector's digital infrastructure. Kenya also follows IVS 300 on valuation of ICT Equipment.

However, several gaps and weaknesses exist in the current ICT asset management framework. These include:

- Inadequate asset monitoring and valuation systems, especially for portable and high-risk ICT items such as laptops and mobile devices.
- Fragmented institutional coordination between finance, ICT, procurement, and audit functions.
- A lack of standardized national valuation guidelines specifically tailored for ICT assets
- Absence of a comprehensive ICT asset inventory system across many public institutions.

These gaps and challenges continue to undermine effective planning, fiscal accountability, and risk management in the public sector's ICT ecosystem. Addressing these gaps through a robust valuation framework is critical for ensuring value for money, reducing asset misuse, and enabling strategic digital transformation.

6.4 RECOMMENDATION AND RATIONALE

For entities reporting under IPSAS it is recommended to value assets on historical cost basis and Current operating value basis. Where an asset is held for financial capacity assets shall be valued at fair value basis.

Public entities are required to report the value of their ICT assets in their financial statements in accordance with national laws and in compliance with International Public Sector Accounting

Standards (IPSAS 45) to ensure accurate asset management, efficient budgeting, and informed decision-making in the public sector's digital infrastructure.

Entities reporting under IFRS accounting standards, Assets shall be valued at Historical cost basis and at fair value basis.

Financial implication:

Ministries, Departments and Agencies and County Governments which get funding from the Exchequer and other Government - approved sources should pay relevant valuation fees to the national Government as provided for in the relevant enabling legislations.

The application of valuation methods such as cost, market, or income approaches for ICT assets like servers, network infrastructure, and software systems may demand considerable financial and human resources. Accurate valuation often requires:

- Detailed inventories of ICT equipment and software licenses,
- Specialized technical assessments to evaluate condition and obsolescence,
- Frequent revaluations due to rapid technological change and short useful lives.

Depreciation and impairment losses for ICT assets especially in environments with fast-paced innovation must be reflected in the entity's income and expenditure statements, potentially impacting budget forecasts and funding needs.

Legal Implication:

Implementing IPSAS 31 (for intangible assets like software) and IPSAS 45 (for tangible ICT hardware) may require legal and regulatory updates within the Kenyan context. This includes:

- Aligning the Public Finance Management Act, the Procurement and Asset Disposal Act, and related ICT regulations to support standardized valuation, recognition, and reporting of ICT assets.
- Formalizing asset recognition thresholds, especially for ICT components that may previously have been expensed or underreported.

This legal alignment is essential to enhance transparency, accountability, and compliance in managing ICT resources in the public sector.

Institutional Implications: Public agencies will need to enhance their capacity in asset management, including adopting modern valuation techniques and data collection systems and training personnel in valuation procedures.
Public institutions must build **institutional capacity** to manage and value ICT assets effectively. This involves:

- Establishing or upgrading **ICT asset registers** integrated with financial systems.

- Investing in **asset management tools** that can automate tracking, monitor performance, and flag obsolescence or impairment.
- Developing internal policies that align with international standards (e.g., IPSAS) and promote regular **audits and reviews** of ICT asset portfolios.

Institutional readiness is key to ensuring that public ICT investments are **efficiently utilized, accurately reported, and sustainably managed**.

6.5 **SPECIFIC RESPONSIBILITIES**

Institution	**Role of the Institution**
Communications Authority of Kenya	Regulates telecommunications, broadcasting, postal/courier services, allocation of frequencies and licenses
Kenya Bureau of Standards	Develops and enforces quality and safety standards for ICT hardware and electronic devices imported or used in Kenya.
Ministry of Information, Communications and Digital Economy	Sets national ICT policies, strategies, and programs, and provides oversight for state ICT agencies.
ICT Authority (ICTA)	Implements and manages ICT standards, procurement, and project coordination across public sector institutions. Also develops the National ICT Enterprise Architecture.
Office of the Data Protection Commissioner (ODPC)	Enforces the Data Protection Act, 2019, regulating how ICT systems and computer networks handle personal data.

CHAPTER VII: INTANGIBLE ASSETS VALUATION POLICY FRAMEWORK

7.1 INTRODUCTION

The valuation of intangible assets in the public sector is important so as to ensure proper management, accountability, recognition, disclosure and optimal utilization of the assets. Valuation determines not only the market value of these assets but also provides relevant information to facilitate decision-making in matters relating to, among others, replacement and disposal.

Intangible Assets are defined as identifiable non-monetary assets without physical substance. They include software, trademarks, patents, copyrights, import quotas, broadcasting licenses and intangible heritage assets.

IAS 38 Definition: According to International Accounting Standard 38, an intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognized in the books of account only when:

i. It is probable that the asset will accrue an economic benefit/service to the entity.
ii. The cost or fair value of the assets can be measured reliably.

Key Characteristics of Intangible Assets

i. Identifiable: The asset is separable (can be sold/transferred), or arises from contractual/legal rights.
ii. Non-monetary: It is not cash or a cash equivalent.
iii. Lacks physical substance: Unlike property, plant and equipment, intangible assets have no physical form (e.g. software, licenses).
iv. Controlled by the Entity: The entity has the power to use the asset and restrict others from using it.
v. Future economic or service benefits: Expected to provide value or service potential over more than one reporting period.

Classification of Intangible Assets

i. **Software:** Custom application software, enterprise systems (if not integral to hardware)
ii. **Licenses and Permits:** Government operating licenses. Examples include: airport landing rights, licenses to operate radio or television rights and fishing quotas.
iii. **Intellectual Property:** Patents, trademarks, copyrights
iv. **Development Costs:** Internally developed software (if criteria met)

v. **Franchise Agreements:** Right to operate under a franchise name, brand names

This valuation framework applies to all National Government and County Government entities that own, manage utilize intangible assets. The framework shall guide the valuation, classification, recording and reporting of intangible assets so as to ensure effective asset management, financial reporting in relation to:

- Initial acquisition cost
- Amortization
- Market value estimation

7.2 OBJECTIVES

The main objectives of this framework is to establish a standardized valuation process for intangible assets in public sector entities ensuring consistency, transparency and accountability in asset management practices. Specifically, the Policy aims;

i. Ensure accurate and consistent reporting of values of these assets in the Government's financial statements in accordance with the applicable accounting framework, that is, International Accounting Standard 38 and International Public Sector Accounting Standard 31, both of which provide for the recognition and disclosure of intangible assets.

ii. Support financial decision-making in respect of acquisition, maintenance, replacement and disposal of intangible assets.

iii. Ensure compliance with applicable legal, accounting and valuation standards

7.3 SITUATIONAL ANALYSIS

7.3.1Existing Policy and Legal Framework

The management and financial reporting of intangible assets in the public sector fall under the following legal environment

i. **The Constitution of Kenya, 2010**
    - Article 11(2)(c) which requires the State to promote the intellectual rights of the people of Kenya
    - Article 40(5) which mandates the State to promote, protect the intellectual property rights of the people of Kenya
    - Article 260 which defines property to include intellectual property

ii. **Copyright Act, Cap 130**, which governs the protection of intangible assets specifically intellectual property such as literary works, musical and artistic works and provides comprehensive provisions for the protection and management of the intellectual property rights.

iii. **Trademark Act, Cap 506,** which governs the registration, protection and enforcement of trademarks which are a form of intangible assets and provides a comprehensive legal framework for the recognition and management of trademarks which are inherently intangible.

iv. **Industrial Property Act, Cap 509,** which provides the legal framework for the protection and management of industrial property rights which are a category of intangible assets and which include patents, industrial designs and utility model

v. **Protection of Traditional Knowledge and Cultural Expressions Act, Cap 218,** which provides a legal framework for safeguarding the intellectual property rights of communities over their traditional knowledge and cultural expressions, both of which are considered intangible assets.

7.3.2 International Standards

i. International Valuation Standards

One of the most widely recognized frameworks for asset valuation is the International Valuation Standards (IVS). IVS 210 specifically relate to the valuation of intangible assets and highlights characteristics of intangible assets like ownership, functions, market position and image. International Valuation Standards are applied in over 100 countries globally and provide a comprehensive set of guidelines and principles for valuing various asset types, including intangible assets. The Standards recommend three primary approaches to intangible asset valuation. These are:

- **Market Approach**

The market approach involves comparing the subject intangible asset to similar assets that have recently been sold or licensed in the market. The method relies on the principle of substitution, which states that a buyer will not pay more for an asset than the cost of acquiring a comparable asset. The market approach is beneficial for valuing assets with an active secondary market, such as trademarks and patents.

- **Income Approach**

The income approach focuses on the future economic benefits the intangible asset will generate. This method involves estimating the present value of the future cash flows or income attributable to the asset using an appropriate discount rate. The income approach is often used to value assets such as customer relationships, technology, and intellectual property.

- **Cost Approach**

The cost approach estimates the value of an intangible asset based on the cost to replace or reproduce it. This method is based on the principle of substitution, which states that a buyer will not pay more for an asset than the cost of acquiring a substitute. The cost approach is beneficial for valuing assets that are difficult to replicate, such as brand names and customer lists.

ii. International Accounting Standards

Kenya has adopted two financial reporting frameworks: International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS). Non-commercial entities apply IPSAS, while commercial entities apply IFRS. The specific standards are:

- International Accounting Standards (IAS) 38, which outlines the accounting requirements for intangible assets including recognition criteria, measurement and amortization.
- IPSAS 31, which is primarily drawn from IAS 38, which prescribes the accounting treatment for intangible assets.

Measurement/Valuation of Intangible Assets

i. Initial Measurement

Intangible assets may be acquired or internally generated.

Acquired intangible assets through purchase shall be measured at cost. The cost shall be either the amount of cash paid or the present value of the amounts to be paid over time.

Where intangible assets are acquired through donation or where the asset's cost is not available, the asset shall be measured at fair value as of that date. The fair value shall be determined by reference to an active market or, in the absence of an active market, determined by a government valuer.

ii. Subsequent Measurement

After initial recognition, intangible assets will be measured using the cost or revaluation model, as explained below.

- **Cost Model:** Under this model, assets are carried at cost less accumulated amortization cost and any accumulated impairment losses.
- **Revaluation Model:** After initial recognition, an intangible asset is carried at a revalued amount, its fair value at the revaluation date, less any subsequent accumulated amortization.

7.3.3 International Best Practices

- **United Kingdom (UK):** UK applies International Financial Reporting Standards (IFRS) for intangible assets and UK GAAP (Generally Accepted Accounting Principles). The income approach and royalty methods are widely used for patents, trademarks, and software.
- **Canada:** Canada has a hybrid system as it applies both IFRS and CGAAP (Canadian Generally Accepted Accounting Principles). The Valuation methods used are income and market approach in valuing patents, trademarks, and proprietary software while royalty is used for brands and trademarks.
- **New Zealand**: New Zealand uses IFRS for reporting intangible asset valuation as well as its own national framework which is New Zealand IFRS. The valuation methods used are: cost

approach for agricultural patents and income approach for intangible assets like customer relationships.

- **India**: India has its own national accounting standard framework known as Indian Accounting Standards (Ind AS) with AS 26 being the specific standard for valuation of intangible assets. The valuation methods used are: market approach for valuing trademarks and brand names, and income approach for software and intellectual property.
- **South Africa**: South Africa uses IFRS for reporting intangible assets mainly IAS 38 and International Valuation Standards (IVS). Valuation method used include: income approach and royalty method for valuing brand names, customer relationships, and software, and market approach for specialized intellectual property sectors such as mining and energy.
- **Tanzania**: Tanzania follows International Valuation Standards (IVS). Tanzania uses the cost approach method for intellectual property in agriculture, natural resources, and emerging sectors like technology.
- **Rwanda**: Rwanda follows IFRS for financial reporting, and institutions such as the Rwanda Institute of Architects and Surveyors (RIAS) are responsible for the management, recognition, measurement and reporting of intangible assets.
- **Uganda:** Uganda follows international valuation standards like IFRS and IVS for both tangible and intangible assets. The Uganda Institution of Professional Engineers (UIPE) and the Uganda National Bureau of Standards (UNBS) provide guidelines for valuing real estate and intellectual property.

7.3.4 Local Valuation Practices

In Kenya, the management and valuation of intangible assets are governed by various national regulations and institutional frameworks aimed at ensuring effective governance and accountability.

Key legislation such as the Public Finance Management Act (Cap 412A) and the Public Procurement and Asset Disposal Act, 2015 mandate that all public assets, including intangible assets, be acquired, managed, and disposed of in a transparent and accountable manner.

In Kenya, the valuation of intangible assets follows a structured set of local practices that ensure consistency, transparency and alignment with recognized financial reporting standards.

The primary bases of measurement applied include:

- **Cost Approach -** this is commonly used for internally developed software and digital systems where market comparison is lacking
- **Market Approach –** this is suitable for assets like domain names or licenses that have an active trading market
- **Income Approach –** this is applied when intangible assets generate measurable income streams such as royalties or subscriptions.

All intangible assets with a finite useful life are subject to amortization**,** and impairment reviews are carried out in accordance with IPSAS 21 or IAS 36 to ensure accurate reflection of asset value.

Revaluation is permitted under local standards and is rarely used due to the limited availability of active markets for most intangible assets in Kenya, leading to a general reliance on historical cost valuation methods.

Despite these regulations, there are significant gaps and challenges in the management of intangible assets, including the following.

i. Many public institutions lack standardized guidelines or procedures for properly valuing and managing intangible assets, leading to inconsistencies in asset reporting.

ii. Public entities often struggle with tracking and maintaining intangible assets like software licenses and intellectual property, which are prone to depreciation or obsolescence.

iii. While institutions like the Kenya Copyright Board and the Kenya Industrial Property Institute provide oversight in intellectual property rights, there is limited collaboration across institutions to create a robust valuation framework for intangible assets.

iv. Additionally, the absence of a centralized digital system to track intangible assets and their associated value, coupled with gaps in capacity and training, limit the effectiveness of managing these assets across government entities.

7.4 **RECOMMENDATIONS**

It is recommended that fair value model and cost model approaches be adopted for valuation of Intangible assets as explained below:

i. Intangible assets shall be carried at cost and amortized over their useful lives. Those with indefinite useful lives shall not be amortized.

ii. Where the historical cost of an intangible asset is not available, the carrying value shall be measured at fair value by a professional valuer.

iii. Where it is impractical to measure the values of intangible assets, especially heritage assets, the assets shall not be recognized in the books of account. However, adequate disclosures shall be made in the notes to the financial statements.

Financial Implications

Ministries, Departments, Agencies and County Governments, which get funding from exchequer and other Government-approved sources, should pay relevant valuation fees to the National Government as provided for in the relevant enabling legislations.

Legal Implications

Public entities should align their asset management practices with national laws including, Public Finance Management Act, 2012, Public Procurement and Asset Disposal Act, 2015 and International Public Sector Accounting Standards. Regular updates to the intangible assets inventory and valuation may be legally mandated to ensure compliance with reporting obligations.

Institutional Implications

Public entities will need to strengthen their asset management systems to ensure accurate and up-to-date records. This involves developing clear procedures for identifying, classifying, and valuing intangible assets such as software, licenses, patents, and digital platforms. Institutions must also establish regular reviews for amortization and impairment, maintain proper documentation, and ensure compliance with relevant accounting standards like IPSAS 31.

7.5 **SPECIFIC RESPONSIBILITIES**

The following key Institutions are responsible for the implementation of this framework;

i. Kenya Industrial Property Institute
ii. Kenya Copyright Board
iii. Communications Authority of Kenya
iv. National Council for Science, Technology and Innovation

CHAPTER VIII: VALUATION OF PORTABLE AND ATTRACTIVE ASSETS POLICY FRAMEWORK

8.1 INTRODUCTION

This chapter addresses the valuation of portable and attractive assets within Kenya's public sector. It emphasizes the necessity of accurate valuation for enhanced asset management, accountability, and loss prevention.

This chapter provides the relevant regulations, valuation methodologies, inherent challenges, and applicable international best practices concerning portable and attractive assets.

1. **Application and Scope**

The chapter applies to all public sector entities that hold portable and attractive items.

2. **Definitions**

Portable and attractive assets are non-consumable items that are portable, desirable, and susceptible to theft or loss due to their portable nature and attractiveness for personal use or resale.

An item is considered:

- **Portable**: if it can be easily carried or moved away.
- **Attractive**: if it is non-consumable, easy to carry, and appealing, making it desirable for personal use or resale, for example, jewelry.

Examples of Portable and Attractive Items

Smartphones, Tablets, Digital Cameras, Portable Power Banks, Portable Air Conditioners/Fans, Musical Instruments (Guitars, Violins, and Pianos), Luxury Pens, Collectible Coins and Stamps, Portable Speaker Systems (High-End), Camera Lenses, antiques, paintings, wall clocks.

8.2 SITUATIONAL ANALYSIS

8.2.1 Existing Legal and Policy Provisions

The following policy and legal frameworks in Kenya guide the management and valuation of portable and attractive assets:

i) **The Kenya Information and Communications Act (KICA), Cap 411A**

This Act impacts the management of portable ICT assets in public institutions. KICA mandates the establishment of frameworks for the management of data and communications, especially as it pertains to the security of ICT equipment.

- Public institutions handling ICT assets are required to ensure their security and protect data on those assets from unauthorized access or misuse.

- Institutions are required to have a secure system in place to manage, track, and dispose of portable assets in a way that ensures data privacy and protection from cyber threats.

ii) The Computer Misuse and Cybercrimes Act, Cap 79C

This law protects the integrity of data and equipment from misuse or unauthorized access.

- **Section 16** of the Act provides that anyone who intentionally interferes with or damages computer equipment, including mobile devices, is liable to penalties, which may include imprisonment.
- **Section 17** ensures that any misuse of data through ICT assets, including stealing or leaking sensitive information, attracts criminal penalties.

iii) The Ethics and Anti-Corruption Act, 65A

This Act promotes transparency, accountability, and ethical conduct in the management of public assets, including portable and attractive items.

- Section 18 emphasizes that public servants must declare any assets under their care and provide documentation that reflects their proper management.
- The Act also holds officers accountable for assets under their care. If assets are lost or misused, the relevant officers may face penalties, including criminal charges, under the act.

iv) The **Public Finance Management Act, Cap 412A**

This Act establishes guidelines for managing public funds, including the management and reporting of public assets. It emphasizes the need for accountability and transparency in asset acquisition, management, and disposal.

- **Section 72** of the PFMA assigns responsibility to accounting officers to ensure that public assets are effectively managed and maintained.
- **Section 153** mandates the efficient use, recording, and valuation of public assets to ensure that public resources are managed prudently.
- Sections 68 and 149 places responsibility on Accounting Officers to safeguard assets.

v) The **Valuers Act (Cap 532)** governs the practice of valuation in Kenya. This Act regulates valuers' qualifications and sets out asset valuation procedures. The Act ensures that only qualified professionals conduct valuations of government assets, including portable assets like ICT equipment.

- **Section 3** of the Valuers Act establishes the **Valuers Registration Board,** which oversees the certification and licensing of valuers. The involvement of registered valuers ensures that asset valuations are accurate, reliable, and meet the standards required for financial reporting.

- This law mandates the use of professional and internationally recognized valuation standards for public assets, which should be reflected in the financial records of government entities.

vi) The **Public Procurement and Asset Disposal Act, Cap 412C**

This Act governs the procurement, management, and disposal of public assets. It ensures that assets, including portable ones, are acquired, maintained, and disposed of through transparent and competitive processes.

- **Section 151** mandates the disposal of assets, including portable machinery and ICT assets, in a way that maximizes value for money and minimizes the risk of fraud or wastage.
- The Act ensures that the disposal of public assets must follow a clearly outlined and transparent process. This includes setting up disposal committees and conducting proper evaluations of the asset's residual value.

8.2.2 **International Standards**

a)International Valuation Standards

While the International Valuation Standards (IVS) don't have a specific standard dedicated solely to "portable and attractive items," the valuation of such items falls under the broader principles and guidelines outlined within the IVS framework, particularly **IVS 101 Scope of Work, IVS 102 Bases of Value, IVS 103 Reporting, and IVS 105 Valuation Approaches and Methods.**

Here's how these general standards apply to portable and attractive items:

- **IVS 101 Scope of Work:** This standard emphasizes the importance of clearly defining the purpose of the valuation, the assets being valued (in this case, the specific portable and attractive items), the valuation date, and the extent of the valuer's investigation. It also requires consideration of any specific assumptions or limiting conditions.
- **IVS 102 Bases of Value:** This standard defines various bases of value, such as Market Value, which is commonly used for such items. The appropriate basis of value will depend on the specific purpose of the valuation (e.g., insurance, sale, financial reporting).
- **IVS 103 Reporting:** This standard outlines the requirements for a valuation report, ensuring it includes sufficient information for the intended users to understand the valuation. This would involve a detailed description of the portable and attractive items, the valuation basis used, the valuation approach(es) applied, and the resulting value opinion.
- **IVS 105 Valuation Approaches and Methods:** This standard describes the main valuation approaches (Market Approach, Cost Approach, and Income Approach) and various methods within these approaches. For portable and attractive items, the **Market Approach** is often the most relevant, involving comparison with recent sales of similar items in the

market. Depending on the nature of the item, the **Cost Approach** (considering replacement cost) might also be applicable, especially for insurance purposes.

Specific Considerations for Portable and Attractive Items:

When valuing portable and attractive items like jewelry, fine art, collectibles, or electronics under IVS, valuers should consider:

- **Detailed Identification:** Accurate and thorough description of the item, including materials, dimensions, condition, serial numbers (if applicable), and any unique features. For items like jewelry and art, factors like gemstones (clarity, color, cut, carat), metal purity, designer, artist, provenance, and historical significance are crucial.
- **Market Research:** Analyzing comparable sales data from various sources (e.g., auction results, dealer prices, online marketplaces) relevant to the specific type and condition of the item.
- **Condition Assessment:** Carefully evaluating the item's current condition, noting any damage, repairs, or alterations that could affect its value.
- **Authenticity and Provenance:** Verifying the authenticity of the item and researching its history of ownership, as provenance can significantly impact value, especially for collectibles and fine art.[2]
- **Specialist Expertise:** Depending on the nature of the item, engaging specialists (e.g., gemologists, art appraisers, antique experts) may be necessary to provide accurate assessments of quality, authenticity, and market value.

IVS outlines the key terms and principles of valuation, ensuring consistency in how different types of value are interpreted. It defines several key bases of value, including **Market Value**, **Fair Value**, and **Depreciated Replacement Cost (DRC)**, all of which are commonly used in the valuation of portable and attractive assets.

- **Market Value** is defined as the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction. This base of value is particularly useful when there is an active secondary market for similar portable assets (e.g., used machinery, vehicles, or ICT equipment), enabling comparisons between assets of similar nature, age, and condition.

- **Fair Value** is commonly used for assets that are not actively traded and may involve more subjective judgment, considering the asset's condition and how it is utilized. This is often applicable to assets used in public sectors or specific industries where market transactions are limited or absent.

- **Depreciated Replacement Cost (DRC)** is a method that estimates the current cost to replace an asset with a new one of similar functionality, adjusted for depreciation to account for wear and tear, obsolescence, and age. This method is particularly important for specialized, custom-built, or older assets that may not have a readily available market value but are critical to business operations or public service.

IVS emphasizes the importance of selecting the appropriate basis of value for each valuation context, which directly influences the outcome. In the case of portable and attractive assets, **DRC** is often the most appropriate method, especially for assets like ICT equipment, vehicles, and machinery that may not have active resale markets but are essential for operational purposes.

For public entities, adhering to these international valuation standards ensures that their asset management practices are compliant with global benchmarks, leading to better financial reporting, improved asset control, and enhanced governance. Institutions that follow these standards can ensure that their portable and attractive assets are appropriately valued, maintained, and accounted for, thereby mitigating the risks associated with asset loss, theft, or mismanagement.

b) International Accounting Standards

i. International Public Sector Accounting Standards (IPSAS)

International Public Sector Accounting Standards (IPSAS) provide a framework for recognizing, measuring, and disclosing public sector assets, including Plant and machinery assets.

Plant and Machinery are classified as Property under IPSAS. IPSAS 45 on property, plant, and equipment provides guidance on the recognition and measurement of Plant and Machinery. The standard provides three valuation bases: historical, current operational value, and fair value.

ii. International Accounting Standards (IAS/IFRS)

IAS 16 on Property, Plant, and Equipment governs the recognition and measurement of PPE, including Plant and Machinery. IAS 16 provides for assets to be measured at cost and fair value.

8.2.3 International best valuation practices in other Jurisdiction

Commonwealth countries generally follow international best practices for asset valuation, especially for portable and attractive items like jewelry, art and luxury items.

These countries have robust legal frameworks and professional standards that align with global valuation guidelines, ensuring consistency and accuracy in valuing such assets. The following are examples of countries with robust frameworks.

i. United Kingdom

The United Kingdom is a leader in the art, jewelry and antiques markets, with strong professional standards set by organizations like Royal Institution of Chartered Surveyors (RICS), and LAPADA

the Association of Art and Antiques Dealers. Major auction houses such as Christie's and Sotheby's help establish market values for luxury items. UK regulations like the Export Control Act, 2002 and the Treasures Act, 1996 ensure the protection and legal handling of valuable cultural assets.

ii. Australia

Australia has a strong appraisal industry with organizations like the Australian and New Zealand Institute of Insurance and Finance (ANZIIF), Art & Antiques Valuers Association of Australia (AAA), and the Royal Australian Numismatic Association (RANA) offering certified training and guidance. The Australian government has created the National Cultural Heritage Control List to regulate and protect valuable heritage items, particularly those of historical or cultural significance.

iii. Canada

Regulated Appraisers: Canada has professional organizations like the Canadian Personal Property Appraisers Group (CPPAG) and the International Society of Appraisers (ISA) that adhere to international valuation standards.

Auction Houses and Dealers: The Canadian auction industry, including Waddington's Auctioneers & Appraisers and Heffel Fine Art Auction House, follows international norms for pricing and auctioning valuable items, ensuring transparency and market reliability.

Cultural Protection Laws: The Canadian Cultural Property Export Control Program protects items of cultural significance, ensuring that historically or artistically valuable items are not exported without governmental approval.

iv. New Zealand

New Zealand has institutions like The New Zealand Institute of Valuers (NZIV) and the Art and Antique Dealers Association of New Zealand (AADANZ) that provide certification and guidance for asset valuers.

Cultural Heritage Protection New Zealand follows the UNESCO Convention on the Means of Prohibiting and Preventing the Illicit Import, Export, and Transfer of Ownership of Cultural Property, and its domestic laws align with international standards for cultural asset protection. Major auction houses such as Art + Object and Webb's play a key role in setting market values for portable and attractive items like fine art, antiques, and jewelry.

v. India

Organizations like the Indian Art Auction and Indian Jewelry Valuers Association (IJVA) provide professional guidance for valuing portable and attractive items.

- **Auction and Art Dealers** - major auction houses such as Sotheby's and Christie's operate in India, adhering to international best practices in asset valuation. India is also home to prominent art dealers and auction houses like Pundole's and Osian's.

- **Legal and Regulatory Compliance** - India follows international conventions like the UNESCO Convention for the protection of cultural heritage, ensuring that valuable items, particularly antiques, are carefully managed and appraised.

vi. **Singapore**

International Standards: Singapore is known as a hub for luxury goods, art, and collectibles, with institutions like the Singapore Institute of Surveyors and Valuers (SISV) ensuring that valuation professionals adhere to international standards.

Auction Houses: Major auction houses such as Christie's, Sotheby's, and Bonhams conduct auctions in Singapore, helping to establish global market benchmarks for valuable items.

Government Regulations: The National Heritage Board (NHB) regulates the protection of significant cultural assets in Singapore, ensuring that valuable items are not unlawfully removed from the country.

vii. **Malaysia**

Valuation and Appraisal Associations: In Malaysia, professional bodies like the Malaysian Institute of Estate Agents (MIEA) and the Malaysian Valuers and Property Managers Association (PEPS) guide standards for asset valuation.

Auction Houses and Dealers Local and international auction houses such as Sotheby's and Phillips operate in Malaysia, adhering to global best practices in the auctioning of valuable assets.

Cultural Protection: Malaysia follows international conventions for protecting national cultural property, ensuring compliance with global standards for the valuation of historical items

viii. **South Africa** has a well-established framework for valuing portable assets, with institutions like the South African Association of Valuers (SAV) and the South African Institute of Valuers (SAIV) which provide professional standards and certifications.

- **Auction Houses and Dealers:** South Africa hosts major auction houses like Bonhams (which operates internationally) and Strauss & Co., which set high standards for valuing and selling collectible and luxury items, especially art.
- **Cultural Heritage** the South African Heritage Resources Agency (SAHRA) works to protect valuable cultural assets, and there is a legal framework for preventing the export of national treasures without proper procedures.

ix. **Nigeria** has professional bodies such as the Nigerian Institution of Estate Surveyors and Valuers (NIESV) that ensure compliance with global valuation standards.

8.2.4 Local Valuation Practice

In Kenya, the valuation of portable and attractive assets, such as machinery, vehicles, electronics, and ICT equipment, follows a mix of legal regulations, professional guidelines, and institutional practices.

Kenya Valuation Practice Standards (KVPS) - The **Institute of Surveyors of Kenya (ISK)** has established the **Kenya Valuation Practice Standards (KVPS)**, which set out the rules and guidelines for valuing assets. These standards align with international practices to ensure transparency and consistency in valuations.

KVPS ensures that portable and attractive assets like machinery, ICT equipment, and vehicles are valued accurately based on the best methods available.

The following valuation approaches and methods used in Kenya:

- **Cost Approach (Depreciated Replacement Cost):** This method is often used for specialized or older assets that do not have a strong second-hand market. It involves calculating the cost to replace the asset with a similar one and then adjusting for depreciation due to age and wear.
- **Market Approach:** This method compares the asset with similar items sold in the market. It is particularly useful for more common assets like vehicles, generators, and office equipment where there is active market data.
- **Income Approach**: This approach is used when assets such as leased machinery or production equipment generate income. The value is based on the expected income or savings that the asset will generate over time.

The Public Finance Management Act, 2012, and the attendant Regulations guide the management of portable and attractive assets such as laptops, tablets, mobile devices, and small machinery in Kenya's public sector. These laws require public entities to acquire, record, value, and dispose of assets transparently and accountable.

However, several challenges affect the effective management of these assets:

- **Poor asset tracking**: Portable assets are often not properly recorded or monitored, increasing the risk of loss or misuse.
- **Inconsistent valuation**: Lack of clear, standardized valuation methods for ICT, heritage, and other portable assets leads to inaccurate reporting.
- **Fragmented coordination**: Limited collaboration between ICT, heritage, finance, procurement, and audit departments.
- **Weak inventory systems**: Many public institutions do not maintain complete and updated inventories of portable assets.
- **Loss of Assets:** Officials assigned attractive assets like tablets do not surrender when exiting the service, leading to asset losses.

- **Multiple Asset Allocations: For example, senior officers may be allocated three iPads** within two years.

These issues affect transparency, planning, and accountability. Strengthening valuation practices, improving coordination, and adopting digital tracking systems are key to safeguarding public assets and supporting service delivery.

8.3 RECOMMENDATIONS AND RATIONALE

The recommended valuation approaches are:

- **Cost Approach Method**
  This is the price of a portable and attractive asset in the open and free market that will be required to replace it in case of loss, theft, damage to an existing asset, or replacement of a totally worn-out asset. This method is also ideal for insurance purposes.

- **Market Approach Methods**
  This is the estimated amount for which an item of portable and attractive asset will fetch in an open market should an entity be willing to dispose of its existing item(s).

Financial implication:

Ministries, departments, agencies, and county governments that receive funding from the Exchequer and other government-approved sources should pay the national government's relevant valuation fees as provided in the relevant enabling legislation.

Legal Implication:

There is a need to have legal and regulatory updates within the Kenyan context. This includes:

- Aligning the Public Finance Management Act, the Procurement and Asset Disposal Act, and related ICT regulations to support standardized valuation, recognition, and reporting of ICT assets.
- Formalizing asset recognition thresholds, especially for assets that may previously have been expensed or underreported.

This legal alignment is essential to enhance transparency, accountability, and compliance in managing ICT resources in the public sector.

Institutional Implications: Public agencies will need to enhance their capacity in asset management, including adopting modern valuation techniques and data collection systems and training personnel in valuation procedures. Public institutions must build **institutional capacity** to manage and value assets effectively. This involves:

- Establishing or upgrading **asset registers** integrated with financial systems.

- Investing in **asset management tools** that can automate tracking, monitor performance, and flag obsolescence or impairment.

A policy that guides how many portable assets, such as iPads, a government officer is entitled to within a given period is needed. A policy direction is needed to deal with officers who exit service and do not surrender portable assets assigned to them.

CHAPTER IX: FURNITURE, FITTINGS AND EQUIPMENT (FFE) VALUATION FRAMEWORK

9.1 INTRODUCTION

This chapter outlines the valuation of Furniture, Fittings and Equipment for the purposes of recognizing, measuring, and reporting these assets in government entities financial statements. The principal issues in the valuation and accounting for Furniture, Fittings and Equipment are the recognition of the assets, the determination of their carrying amounts, and the depreciation changes and impairment losses to be recognized in relation to them.

Furniture refers to tangible assets held for use in operations and expected to provide service potential or economic benefits overtime. Furniture typically includes items such as desks, tables, chairs, book shelves, cabinets and such related items owned by government entities.

Fittings refer to the items that are permanently installed or affixed to the building or structure but are not integral to its function. Fittings typically includes items such as built-in cabinets, lighting fixtures, plumbing installations and partitions.

Equipment refers to the tangible assets used in an office, or residential setting to make the space functional, comfortable, and efficient. These assets are generally not part of the building structure but are essential for everyday operations. Equipment typically includes items such as machinery, tools, office devices and specialized instruments. Equipment includes all equipment not covered under ICT guideline and plant and Machinery guideline

This framework shall apply to the valuation of Furniture, Fittings and Equipment in all government entities except exploration and evaluation assets, bearer plants, and assets classified as held for sale.

9.2 OBJECTIVE

The main objectives of this framework is to prescribe the valuation method and accounting treatment for Furniture, Fittings and Equipment that will be applied for this class of assets by government entities. The policy specifically aims to:

1. Establish a consistent framework for recognizing, measuring and reporting these assets by government entities.
2. Enhancing transparency and accountability in the management of this class of assets.
3. Support informed decision-making and financial integrity in public sector assets reporting.

9.3 SITUATIONAL ANALYSIS

9.3.1 Existing Legal and Policy frameworks

In Kenya, several legislations govern Furniture, fitting and Equipment valuation:

1. **The Constitution of Kenya 2010:**

Article 201(d) emphasizes the prudent and responsible use of public resources, reinforcing the need for fiscal discipline. Article 227 mandates that when state organs or public entities contract for goods or services, they must do so through a system that is fair, equitable, transparent, competitive, and cost-effective.

2. **Public Finance Management Act (PFMA) (Cap 412A):**

Sec 23 Mandates valuation for asset management and public expenditure efficiency.

3. **Public Procurement and Asset Disposal Act (Cap 412 C):**

Sec 43 Provides for procurement and disposal of assets.

4. **Valuers Act (Cap 532):**

The Act Regulates the practice of professional valuers in Kenya. Only registered and licensed valuers may perform official valuations.

- **The Constitution of Kenya 2010:**
  - ➢ Article 201(d) emphasizes the prudent and responsible use of public resources, reinforcing the need for fiscal discipline.
  - ➢ Article 227 mandates that when state organs or public entities contract for goods or services, they must do so through a system that is fair, equitable, transparent, competitive, and cost-effective.
- **Public Finance Management Act (PFMA) (Cap 412A): Sec 23** Mandates valuation for asset management and public expenditure efficiency.
- **Public Procurement and Asset Disposal Act (Cap 412 C): Sec 43** Provides for procurement and disposal of assets.
- **Valuers Act (Cap 532):** Regulates the practice of professional valuers in Kenya. Only registered and licensed valuers may perform official valuations.

9.3.2 International Standards

a)International Valuation Standards

IVS 300 focuses on the valuation of **equipment.** The **Valuation** approaches outlined are: Market Approach, Income Approach, and Cost Approach.

b)International Accounting Standards

i) IPSAS

IPSAS 45 (Property, Plant and Equipment) - Furniture, Fittings, and Equipment (FFE): FFE should initially be measured at cost, including all directly attributable costs. Subsequent measurement can be at cost or revalued amounts. The current operational value (COV) that reflects the value of assets in the public sector based on their service potential is encouraged. The service potential focuses on the assets ability to support public services, making it particularly relevant for assets that are not actively traded.

IPSAS 26 (Impairment of Cash Generating Assets) broadly gives impairment guidelines. An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount.

ii) IAS/IFRS

IAS 16 (Property, Plant and Equipment): Outlines the accounting treatment for most types of property. plant and equipment. property plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model.

IAS 36 (Impairment of Assets): Seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e the higher of fair value less costs of disposal and value in use.

9.3.3 Valuation practices in other jurisdictions

Commonwealth countries are generally aligned with international accounting and asset management standards, especially IPSAS for public sector and IFRS for private sector. However, each country may adapt these standards to its own legal, institutional, and auditing frameworks.

i. **United Kingdom:** Royal Institution of Chartered Surveyors (RICS): RICS sets standards for valuation, including equipment appraisals. Their guidelines align closely with IVS and emphasize transparency, consistency, and professional ethics.
ii. **Australia:** Uses Australian Accounting Standards (AASB) aligned with IFRS. Government agencies use AASB 116 for FFE valuation. The Cost model is commonly applied while revaluation is encouraged every 3–5 years for significant assets. The country has strong reliance on independent valuers, especially in education and health sectors.
iii. **Canada:** Uses Public Sector Accounting Standards for government and IFRS for businesses. FFE is valued at historical cost less accumulated depreciation. Revaluation is rare unless a major event such as restructuring occurs.
iv. **Singapore**: The valuation of furniture, fixtures, and equipment is closely aligned with international standards—primarily International Financial Reporting Standards.
v. **South Africa:** Valuation of Furniture, Fittings and Equipment is done using standard asset valuation practices aligned with both International Financial Reporting Standards and local accounting or auditing guidelines. Typically, one or more of these methods are used: Coast approach, Market approach or Income approach.

9.3.4 Current Valuation Practice in Kenya

The management of furniture, fittings and equipment assets in public sector entities is governed by key legislative frameworks, including the Public Finance Management Act, 2012 and its Regulations. These regulations mandate that all public assets be acquired, managed, recorded, and disposed of in a transparent, accountable, and value-for-money manner. Sections 72 and 153 of the Public Finance Management Act, 2012 assign explicit responsibilities to Accounting Officers at both national and county levels to ensure the prudent use, recording, and valuation of public assets, including furniture, fittings and equipment.

Public entities are required to report the value of their furniture, fittings and equipment assets in their financial statements in accordance with applicable national laws and International Public Sector Accounting Standards. This ensures accurate asset tracking, supports efficient resource allocation, and promotes informed decision-making in the management of this asset category.

However, despite the existence of this legal framework, the valuation for this class of asset varies across government entities leading to reporting disparities. Some of the factors contributing to the disparity are:

- Limited valuation expertise and inconsistent application of standards.
- Lack of updated and centralized asset inventories, resulting in difficulties in tracking the condition, location and usage of assets.
- Inadequate asset monitoring particularly for high-value or specialized items.
- Fragmented coordination among departments responsible for the assets ownership.

Currently, public sector institutions that report on furniture, fittings and equipment have different valuation methods depending on their internal policy on asset management. The current valuation practice of Furniture, Fixtures, and Equipment within the public sector is shaped by a mix of national laws, accounting standards, and government policy frameworks. These practices aim to ensure accurate asset recording, accountability, and compliance with audit and financial reporting standards.

9.4 RECOMMENDATIONS

To ensure transparency, consistency, and reliable valuation of furniture, fittings and equipment, the following approaches tailored to the specific characteristics of public assets are recommended:

a. **Current Operational Value:** This valuation basis reflects the asset service potential rather than market value, making it particularly relevant for public assets that are not actively traded.

b. **Cost Approach:** Furniture, fittings and Equipment are carried at historical cost, less accumulated depreciation and impairment losses. Systematic depreciation, obsolescence and impairment assessments is encouraged to ensure accurate valuation.

c. **Market Approach:** This approach compares the asset to similar items in the market,

considering the recent transactions and prevailing prices.

d. **Income Approach:** This valuation approach applies when assets generate revenue, using discounted cash flow analysis to estimate their value.

Financial Implication

The depreciation and impairment value will be recognized in the entity's income and expenditure statements while government entities conducting assets valuation will be required to meet the cost of valuations as part of the voted provisions. Government entities will be required to justify their respective recurrent valuation budgets.

Legal Implication:

The Valuers Act (Chapter 532) requires entities to adhere to the Valuers Act, which mandates professional valuation standards and licensing requirements for valuers. It will be necessary for government entities to align to the valuation requirements.

Institutional Implication: Institutions will be required to comply with the provisions of this valuation framework. This will require capacity building in the form of investments in the area of valuation expertise and institutional training. Multiple agencies such as the PSASB and the Valuers Registration Board (VRB) will be encouraged to collaborate in the implementation of the policy.

9.5 SPECIFIC RESPONSIBILITIES

No.	Institution	Responsibility
1.	Accounting Officers (AOs) of Public Entities	Oversight and accountability for valuation and asset management.
2.	The State Department for Public Works.	Provides the technical expertise, standards, and oversight needed to ensure public assets—including FFE—are valued accurately, transparently, and in compliance with legal frameworks.
3.	Public Sector Accounting Standards Board (PSASB	Issues standards and valuation guidance
4.	Office of Auditor General	Reviews valuation accuracy and financial disclosures
5.	Valuers Registration Board	Regulating the activities and conduct of registered valuers

CHAPTER X: VALUATION POLICY FRAMEWORK FOR HERITAGE ASSETS

10.1 INTRODUCTION

This chapter aims to guide entities on the valuation for heritage assets for the purposes of financial reporting, performance measurement, risk management and decision making.

Heritage and cultural assets are defined as those assets that are held for the duration of their physical lives because of their unique cultural, historical, geographical, scientific, and/ or environmental attributes. They are items which have value because of its contribution to a nation's society, knowledge and/or culture. Some Heritage and Cultural assets are also referred to as intangible social and spiritual inheritance.

IPSAS/IAS / GRAP 103 defines heritage assets as those items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance.

IPSAS 17 and 31 provide a description of the characteristics of heritage assets:

i. Cultural, environmental or historical significance e.g. historical buildings, recordings of significant historical events
ii. Value is unlikely to be fully reflected in a financial value based purely on a market price
iii. Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal of sale
iv. Often irreplaceable and value may increase over time
v. Difficult to estimate their useful lives.

Example of Heritage assets:

i. Works of art, antiquities and exhibits such as preserved biological and mineral specimens or technological artifacts.
ii. Collections of insects, butterflies and fossils.
iii. collections of rare books, manuscripts, records, photographic positives and negatives and other reference material held by libraries to be preserved for their historical and cultural value.
iv. Objects of scientific or technological interest.
v. Historical monuments, such as graves and burial grounds.
vi. Archaeological and paleontology sites.
vii. Conservation areas, such as national parks.
viii. Historical buildings that have a significant historical association.
ix. movable objects, such as military insignia, medals, coins, stamp collections or objects of decorative or fine art; and
x. Recreational parks used for leisure to be preserved for the benefit of present and future generations.

10.2 OBJECTIVE

The main objective of the chapter is to guide the valuation of heritage assets for the purposes of financial reporting, management of the assets, decision making and legal compliance.

10.3 SITUATIONAL ANALYSIS

10.3.1 Legal provisions in Kenyan context

In Kenya, several legislations govern Heritage Assets valuation and public finance management.

i. **The Constitution of Kenya 2010:** Article 11 of the constitution recognizes culture as the foundation of the nation and as the cumulative civilization of the Kenyan people and the nation.

ii. **The National Museums and Heritage Act (Cap 216**): Act of Parliament that establishes the National Museums of Kenya as a body corporate and provides for the protection, conservation, and transmission of Kenya's cultural and natural heritage.

iii. **Public Finance Management Act -PFMA (Cap 412A):** Mandates valuation for asset management and public expenditure efficiency.

iv. **The Traditional Knowledge and Cultural Expressions Act (Cap 218A)** - Aims to protect and promote traditional knowledge and cultural expressions, ensuring communities control the use of their culturally significant knowledge and expressions.

v. **Public Archives and Documentation Service Act (Cap 19)-**The Act establishes the Kenya National Archives and Documentation Service and provides for the preservation of public archives and public records and for connected purposes.

vi. **National Culture and Heritage Policy** - The Policy is premised upon the Constitution Article 11 which recognizes culture as the foundation of the nation and as the cumulative civilization of the Kenyan people and the nation.

10.3.2 International Standards

a) International valuation standards

The international valuation standard for heritage assets primarily falls under the guidelines set by the International Valuation Standards **(IVS)** and other specific regulations from organizations like the International Council on Monuments and Sites **(ICOMOS)** and the International Financial Reporting Standards **(IFRS)**.

Some of the key frameworks and principles:

i. The **IVS** provides broad guidance for valuing different types of assets, including heritage assets. The **IVS 2017** and later versions state that heritage assets should be valued based

on their special characteristics, including cultural, historical, artistic, or scientific importance.

ii. For heritage assets, the valuation focuses on their unique attributes, rather than their market value. Often, market value is not directly applicable, and alternative methods (such as cost-based or income-based approaches) may be used.

b) International accounting standards

The prevailing IPSAS Standards for the Heritage assets are IPSAS 17(45), Property Plant and Equipment (IAS 16), IPSAS 31 and Intangible assets (IAS38). The guiding IAS Standard for Heritage assets is IAS 16, Property Plant and Equipment.

IFRS and IAS 16 (Property, Plant and Equipment): Under **IFRS**, specifically **IAS 16**, heritage assets are typically treated as part of the property, plant, and equipment but are often exempt from depreciation. The standard emphasizes that if a heritage asset is held for a public benefit and is not intended for sale, it should be recorded at a revalued amount or cost, and should not depreciate unless there's a foreseeable reduction in its utility.

Recognition of Heritage Assets

Heritage assets should be recognized in the financial statements if they meet the criteria below:

i. Probable flow of economic benefit or service potential: future economic benefit or service potential must be probable to flow to the entity.
ii. Reliable measurement: The cost or fair value of the item must be reliably measured.

Measurement/Valuation

IPSAS/IAS provides key measurement criteria for Heritage assets as follows:

i. Current operational value: Heritage assets are measured at their current operational value, considering their cultural, historical, or environmental significance. This measurement reflects the value of the asset in its current use.

ii. Fair Value: if the current operational value cannot be reliably determined, Heritage assets are measured at fair value. Fair value is the price that would be received to sell the assets in an orderly transaction between market participants at the measurement date.

c) **ICOMOS Guidelines**:

i. **ICOMOS**, a non-governmental organization dedicated to preserving cultural heritage, offers specific guidelines related to valuing cultural heritage. These guidelines encourage a broader valuation approach that encompasses both tangible and intangible cultural values.

ii. They recommend considering not just economic value but social, cultural, and environmental factors, which might be difficult to measure quantitatively but are essential for holistic valuation.

d) **UNESCO Convention**:

UNESCO's **Convention for the Safeguarding of the Intangible Cultural Heritage** indirectly impacts heritage asset valuation by stressing the importance of non-material aspects (e.g., rituals, traditions, and cultural expressions). This makes the valuation process complex, as these assets' worth isn't easily quantified.

e) **Cost and Income Approaches**:

1. For heritage assets, the **cost approach** is often used, considering the cost of acquiring or creating the asset, which includes the conservation costs and any specific investments required for its preservation.

2. The **income approach** is less common but might be used if the asset generates income (e.g., through tourism or commercial use).

10.3.3 International best valuation practices in other jurisdictions

Jurisdictions that have adopted Heritage assets valuation apply the following approaches:

i. **Egypt**- In Egypt, heritage assets are accounted for using a practical approach that includes two sub-approaches
   - **Assets-Liabilities Matching Approach**: Heritage assets are capitalized if their cost or value information is available and they can be disposed of.
     Non-Assets-Liabilities
   - **Matching Approach**: Heritage assets are not capitalized if they cannot be disposed of, even if cost or value information is available.

ii. **Ghana -**In Ghana, the accounting for heritage assets follows guidelines that emphasize their cultural, historical, and environmental significance. Key points include:
   - **Recognition and Measurement**: Heritage assets are recognized based on their historical, artistic, scientific, and environmental value. They are often difficult to value due to the lack of a market for such unique items.
   - **Reporting**: Heritage assets are reported separately from other fixed assets on the balance sheet. They are typically acquired through donations and are recorded by debiting heritage assets and crediting contribution revenue.

iii. **Tanzania-**In Tanzania, the management and accounting of heritage assets are governed by public finance laws and regulations. Key aspects include:

- **Recognition**: Heritage assets are recognized as assets with cultural, environmental, or historical significance.
- **Valuation and Reporting**: These assets are included in the public asset register and are valued based on their contribution to cultural and historical knowledge. They are reported separately from other public assets to reflect their unique nature.

10.3.4 Current situation in Kenya - local valuation practices

The process of valuing heritage assets in Kenya involves several methodologies and practices to ensure accurate and fair assessments. These methods are applied within the framework of the International Valuation Standards (IVS) and the guidelines provided by the Institution of Surveyors of Kenya (ISK).

Some of the examples of the applicable methods include;

i. **Direct Sales Comparison Method**: This method involves comparing the heritage asset with similar properties that have been sold recently. It's useful for assets with comparable market data
ii. **Income Capitalization Method**: This approach estimates the value based on the income the asset can generate. It's often used for heritage properties that can be rented out or used for commercial purposes
iii. **Replacement Cost Method**: This method calculates the cost of replacing the heritage asset with a similar one, considering current construction costs
iv. **Reproduction Cost Method**
v. This approach Method is used to determine the value of an heritage asset by estimating the cost to reproduce it exactly as it was, using current materials and construction techniques.

10.4 RECOMMENDATION AND RATIONALE

It is recommended that fair value model and current operational approaches be used for valuation of Heritage assets as explained below:

a. Fair Value measurement model: If the current operational value cannot be reliably determined, Heritage assets are measured at fair value. Fair value is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.
b. Current operational value-Heritage assets are measured at their current operational value, considering their cultural, historical, or environmental significance.

Valuing heritage assets is not just a technical or financial exercise but it has deep implications across cultural, economic, legal and institutional dimensions. It requires a multidisciplinary, context-sensitive approach that recognizes monetary and non-monetary values.

Financial implications

a. The financial implication of valuing heritage assets which do not generate direct income is challenging to apply conventional valuation models
b. For insurance purposes the values of heritage assets are required to be current to cover potential loss or damage
c. Accurate valuation of heritage assets may influence eligibility for grants/donations
d. For tourism and economic development valuation of heritage assets will attract public investments.

Legal implication

a. The ownership of heritage assets may be public, private or held in trust and this may determine who can legally make decisions about their use or alteration
b. Some heritage assets are protected and regulated under heritage laws such as heritage acts and unesco conventions
c. Need to have an enabling legal framework that pronounces asset as a Heritage asset.

Institutional implications

a. Institutions often lack the necessary capacity and expertise to assess both tangible and intangible cultural heritage
b. Need for institutions to balance transparency in valuation with sensitivity to culture and historical significance.

10.5 SPECIFIC RESPONSIBILITIES

The following Institutions have specific responsibilities for the implementation of this policy framework.

a. State Department for Culture, The Arts and Heritage
b. The National Museums of Kenya
c. The National Archives and Documentation Services
d. The Kenya National Library Service
e. The Kenya Wildlife service
f. The Kenya Forest Service

CHAPTER XI: ASSETS VALUATION POLICY FRAMEWORK FOR BIOLOGICAL ASSETS

11.1 INTRODUCTION

This chapter establishes the framework for recognizing, measuring, and disclosing biological assets while aligning with international standards and best practices. **Biological Assets** are assets that are living (living plants or animals – for example, trees in a plantation or orchard, cultivated plants, sheep, cattle) related to managed agricultural activity. (for example, raising livestock, forestry, annual or perennial cropping, fish farming). It includes biological transformation which comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Examples of Biological Assets in the Public Sector

Biological assets include the following: -

a. Sheep, pigs, beef cattle, poultry and fish.
b. Dairy cows.
c. Trees in a forest.
d. Bearer plant
e. Plants for harvest (for example, Tea, Coffee, Sugar, wheat and vegetables).
f. Aesthetic/Ornamental plant (landscape plant) THE SEEDS AND PLANT VARIETIES ACT (Cap. 326)s)
g. Aesthetic /ornamental poultry (chicken), birds, Fish varieties and other Livestock species.

11.2 OBJECTIVE

The objective of this asset valuation policy is to establish a consistent, transparent, and reliable framework for recognizing and measuring biological assets within the public sector. The policy ensures that the valuation process reflects the fair value of assets, aligns with applicable standards and supports effective decision-making regarding resource allocation and sustainability. This chapter aims to guide entities on the valuation for biological assets for the purposes of financial reporting, performance measurement, risk management and decision making.

11.3 SITUATIONAL ANALYSIS

11.3.1 Existing Policy and Legal Framework

Biological assets are governed by various legal instruments that include the

i. **Constitution of Kenya, 2010:**
ii. **Crops Act Cap. 318:** Provide for consolidation and repeal of various statutes relating to

crops; to provide for the growth and development of agricultural crops and connected purpose

iii. **The Tea Act, 2020:** Provide for regulation, development and promotion of the tea industry and for connected purposes

iv. **The Sugar Act No.11 of 2024:** provide for the development, regulation and promotion of sugar industry, to provide for the establishment of powers and function of the Kenya Sugar Board and for connected purposes

v. **The Fisheries management and Development Act, Cap. 378:** to provide for the conservation, management and development of fisheries and other aquatic resources to enhance the livelihood of communities dependent on fishing and to establish the Kenya Fisheries Service; and for connected purposes

vi. **Crop Production and Livestock Act (Cap 321):** outlines regulations for livestock keeping, grazing, and potentially prohibits the keeping of livestock on agricultural land in certain areas.

vii. **The Animal Diseases Act (Cap 364):** also plays a role by addressing disease control and regulations related to animal movement.

viii. **The Seeds and Plant Varieties Act (Cap. 326):** It aims to ensure that seeds produced or imported into Kenya meet certification, requirements, prevent the sale of fake seeds and provide punishment for fake seed dealers. The law comprehensively addresses all legislative issues related to seeds and plant varieties.

Policies governing Biological Assets

i. **National Agriculture Policy, 2021:** provides a clear road map to the realization of Vision 2030 agricultural goals and targets.

ii. **The Kenya National Fisheries Policy, 2020:** designed to improve the management and development of the fisheries sector in Kenya. The policy provides guidance on sustainable management of fisheries resources, enhancement of fish production, and promotion of socio-economic development in the fishing communities.

Institutions Regulating Biological Assets in Kenya

The following is the list of agencies regulating biological assets in Kenya: Ministry of Agriculture and Livestock, Mining and Fisheries and Marine Resources, National Environment Management Authority, Kenya Wildlife Service (KWS), Kenya Plant Inspectorate Service (KEPHIS) and Kenya Forest Service.

11.3.2 International Standards

a) **International Valuation Standards**

International Valuation Standards (IVS) 105 provides guidance on the approaches and methods used in valuation across different asset classes. The standard outlines three primary approaches: Market approach where assets are valued based on comparable market transactions; Income approach that determines value based on expected future cash flows, discounted to present value; and, Cost approach that estimates value based on the cost to replace or reproduce the asset. IVS 105 emphasizes the importance of professional judgement in selecting the most suitable approach, considering factors such as asset type, market conditions, and available data.

b) International Accounting Standards

IPSAS 27 and IAS 41: Agriculture provide distinct but complementary frameworks for valuing biological assets in public and private entities at both levels of government.

Measurement and recognition of biological asset

Under IPSAS 27/IAS41, biological assets are recognized based on their fair value less costs to sell. The following approaches are recommended;

- **Market based approach**

Fair Value Measurement: This approach uses market prices to determine the fair value of biological assets.
Comparable Sales: Identifying similar assets that have been sold recently and adjusting for differences.
Market Quotations: Using prices quoted in active markets for identical or similar assets.

- **Cost approach involves**

Replacement Cost: Estimating the cost to replace the biological asset with a similar one.
Historical Cost: Using the original cost of the asset, adjusted for depreciation and impairment.

- **Income approach involves:**

Discounted Cash Flow (DCF): Estimating the future cash flows that the biological asset is expected to generate and discounting them to their present value.

Circumstances where an entity can depart from fair value(exceptions) are only two

a. ***Practical expedient***. The standard allows that cost may approximate fair value where little biological transformation has taken place since the initial cost was incurred (for example, for fruit tree seedlings planted immediately before the balance sheet date). The same applies when the impact of the biological transformation on price is not

expected to be material (for example, for the initial growth in a 30-year pine plantation cycle)

b. The second exemption – ***that fair value cannot be reliably measured*** – is almost never relevant. The standard includes a presumption that fair value can be measured reliably for a biological asset. That presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable.

Depreciation

IPSAS 27 (Agriculture)

Biological assets are measured at fair value less costs to sell, unless fair value cannot be reliably measured. Bearer plants are excluded from IPSAS 27 and are depreciated in line with IPSAS 45 (Property, Plant, and Equipment).

IAS 41 (Agriculture)

Biological Assets are measured at fair value less costs to sell. Bearer plants are treated under IAS 16 (Property, plant and Equipment).

11.3.3 International Practices in other Jurisdictions

Countries that are recognized for their best practices in valuing biological assets often have robust agricultural sectors and adhere to international standards like International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). Some of these countries include:

i. ***Australia:*** Known for its advanced agricultural practices and adherence to IFRS, Australia has well-established guidelines for valuing biological assets.

ii. **New Zealand:** With a strong focus on agriculture, New Zealand follows IFRS and has comprehensive standards for biological asset valuation.

iii. **United States:** The U.S. follows Generally Accepted Accounting Principles (GAAP), which align closely with IFRS in terms of fair value measurement for biological assets.

iv. **Brazil:** As one of the largest agricultural producers, Brazil adheres to IFRS and has developed expertise in valuing biological assets.

v. ***South Africa:*** South Africa follows IFRS and has specific guidelines for the agricultural sector, ensuring accurate valuation of biological assets.

These countries have developed frameworks and practices that ensure accurate and reliable valuation of biological assets, contributing to transparent financial reporting and informed

decision-making.

11.3.4 Local Valuation Practices

Valuation for Biological Assets in Kenya is not well defined. Entities that value Biological Assets apply fair value accounting while others use historical cost.

11.4 RECOMMENDATIONS

It is recommended that valuation of biological assets by the National government and counties government be undertaken as follows:

a. Fair Value less costs to sell – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

b. Where fair value cannot be reliably determined, a cost-based valuation method such as historical cost or amortized cost may be used instead. Cost approach involves;
   i. **Replacement Cost**: Estimating the cost to replace the biological asset with a similar one.
   ii. **Historical Cost**: Using the original cost of the asset, adjusted for depreciation and impairment.

The income approach can be applied in the determination of fair value. The Income approach involves use of Discounted Cash Flows.

Financial Implications

i. Improved financial transparency: Proper valuation enhances financial reporting accuracy, helping stakeholders assess the true economic value of biological assets.
ii. Investment Attraction: Clear valuation policy can attract investors, especially in agriculture and forestry, by providing reliable data.
iii. Taxation and Revenue Generation: Accurate valuation may impact taxation policies, influencing government revenue collection from agricultural and environmental sectors.

Legal Implications

i. Regulatory Compliance: Kenya PFM act requires proper asset valuation for financial reporting.
ii. Environmental Conservation Laws: Wildlife and forestry valuation must align with conservation policies, ensuring sustainable management.

Institutional Implications

i. Capacity Building Needs: Institutions require skilled professionals to implement fair value

accounting for biological assets.

ii. Public Sector Adoption: Government agencies managing forests, wildlife, and agriculture need to integrate valuation policies into their financial systems.

11.5 SPECIFIC RESPONSIBILITIES

The following key institutions are responsible for the implementation of this policy:

a. Ministry of Agriculture and Livestock Development
b. State Department for Livestock Development
c. State Department for Agriculture
d. Kenya Animal Genetic Resource Centre (KAGRC)
e. Institutions responsible for the time being for Agriculture, Livestock, Fisheries and Environment and Forestry matters
f. Kenya Wildlife Service
g. NEMA
h. KEPHIS
i. Kenya Agricultural and Livestock Research Organization (KARLO)
j. Agriculture and Food Authority (AFA)
k. Kenya Tea Board (KTB)
l. Kenya Sugar Board
m. National Treasury
n. Office Auditor General
o. County government and related entities
p. Public Accounting Standards Board

CHAPTER XII: ASSETS VALUATION POLICY FRAMEWORK FOR SUBSOIL ASSETS

12.1 INTRODUCTION

This chapter covers the valuation guidance for subsoil assets that are naturally occurring and in their natural state. Subsoil assets, also known as natural resource assets, include mineral deposits, oil and gas reserves, groundwater, and other underground resources. These assets hold significant economic value and play a crucial role in the financial stability of private enterprises and national economies. The valuation of subsoil assets is a critical aspect of financial reporting and public sector accountability, influencing investment decisions, fiscal planning, and sustainable resource management.

Subsoil assets: refers to all non-living natural items within the earth, both in dry land and the seabed. Subsoil resources include metalliferous ore, such as mineral and metal deposits, and fossil fuels, such as petroleum, coal, and natural gas. These are also broadly referred to as natural resources.

Contingent resources are quantities of hydrocarbons or minerals that are discovered but are not yet commercially viable due to technical, economic, or regulatory constraints.

Proven reserves refer to the quantity of natural resources that are confirmed to be recoverable under current economic and operational conditions.

Subcategories of Proven Reserves

- **Proven Developed Reserves (PDP)**: Already producing or can be produced with minimal investment.
- **Proven Undeveloped Reserves (PUD)**: Require further development, such as drilling, but are still considered commercially viable.

This chapter aims to guide entities on the valuation for subsoil assets for the purposes of financial reporting, performance measurement, risk management and decision making.

12.2 OBJECTIVE

The objective of this asset valuation policy is to establish a consistent, transparent, and reliable framework for recognizing and measuring subsoil assets within the public sector. Specifically, the policy ensures that the valuation process reflects the fair value of assets, aligns with applicable standards and supports effective decision-making regarding resource allocation and sustainability.

12.3 SITUATIONAL ANALYSIS

12.3.1 Existing Policy and Legal Framework

Subsoil assets in Kenya are governed by various legal instruments as follows:

i. **The Mining Act, Cap 306:** provides for the regulation of prospecting, mining, and minerals processing. The Act also introduced the concept of mineral rights and licensing and established royalties and revenue-sharing mechanisms to benefit communities.

ii. **The Petroleum Act, Cap 308:** The Act governs upstream, midstream, and downstream petroleum activities. The Act requires production-sharing contracts (PSCs) for oil and gas exploration. It also establishes benefit-sharing with local communities, counties, and the national government.

iii. **Environmental Management and Coordination Act (EMCA), Cap 387:** The Environmental Management and Coordination Act (EMCA), 1999 (Amended 2015), requires environmental impact assessments (EIAs) before undertaking subsoil resource projects. It provides for environmental protection in resource extraction.

iv. **The Land Act, Cap 280 and Community Land Act, Cap 287:** Outlines processes for accessing and using land containing subsoil resources. Protect community rights in resource-rich areas.

v. **The Water Act, Cap 372:** Regulates the use of groundwater as a subsoil resource, requiring permits for extraction.

Several policies guide the management of subsoil resources. These include:

i. **The Mining and Minerals Policy (2016):** Provides guidance on sustainable exploitation of mineral resources and equitable distribution of benefits.
ii. **The National Energy Policy (2018):** Focuses on the development of energy resources, including oil and gas, to meet Kenya's energy needs.
iii. **The Water Policy:** Includes provisions for groundwater management, recognizing its importance as a subsoil resource.

12.3.2 International Standards

a) International Valuation Standards

International Valuation Standards (IVS) 105 and 110 are important in the valuation of subsoil assets. The terminal value of subsoil assets such as a mine or an oil well may have little or no relationship to the preceding cash flow. In such cases, the terminal value is typically calculated as the salvage value of the asset, less costs to dispose of the asset. In circumstances where the costs exceed the salvage value, the terminal value is negative and referred to as a disposal cost or an

asset retirement obligation.
IVS guidelines may be referenced for comprehensive subsoil assets valuation.

b) International Accounting Standards

i. IPSAS ED 92 (Exposure Draft 92 - Reporting on Natural Resources)

The **International Public Sector Accounting Standards (IPSAS) Exposure Draft 92** focuses on the financial reporting of **natural resources**, including subsoil resources.
Exposure Draft 92 aims to establish accounting and reporting requirements for natural resources controlled by public-sector entities. These include recognition, measuring, and disclosing subsoil resources that meet asset recognition criteria; enhancing transparency in financial reporting for governments managing subsoil resources, and guiding how to account for subsoil resources before and after extraction.

ii. IFRS 6 (Exploration for and Evaluation of Mineral Resources)

International Financial Reporting Standards (IFRS 6), guides the accounting treatment of expenditures related to the exploration and evaluation of mineral resources. Its objectives are:

- Guides entities engaging in exploration and evaluation to continue using previous accounting policies until further guidance is developed.
- Addressing the recognition, measurement, and impairment of exploration and evaluation assets.
- Requires entities to disclose information about the nature and financial impact of exploration and evaluation activities.

Valuation of Subsoils as Natural Resources
IPSAS ED 92: Tangible Natural Resources.

a) Initial Measurement.

Subsoil assets acquired through non-exchange transactions shall be valued at the deemed cost. Deemed cost shall be arrived at using the current value measurement model that is supported by current operational value and fair value basis.

Subsoil Assets acquired through an exchange transaction shall be measured at cost.

b) Subsequent Measurement

1. Historical Cost Model

Where an entity chooses to carry the subsoils at the Historical cost model, the assets shall be carried at that cost or deemed cost less any accumulated depreciation (if applicable) and any accumulated impairment losses.

2. **Current Value Model**

Where an entity elects to measure subsoil after initial recognition using the current value model and its current value can be reliably measured, it shall be carried at a revalued amount, which is its current value at the date of revaluation less any accumulated depreciation (if applicable) and subsequent impairment losses.

Subsoils held for operational capacity shall be measured at the current operational capacity, while subsoils held for financial capacity shall be measured at fair value basis.

Valuation Subsoils as Inventory

IPSAS 2/IAS 2 Inventory

Subsoil converted from natural resources to commercial inventory shall be measured at lower of cost and net realizable value.

Subsoil inventory acquired through a non-exchange transaction shall be valued at fair value as of the date of acquisition.

Subsoil held for distribution at no charge or nominal charge or used to make goods for distribution shall be measured at lower of Cost and Replacement cost.

Recognition of Subsoil Assets

An entity shall recognize a tangible natural resource if, and only if, It is probable that future economic benefits or service potential associated with the natural resource will flow to the entity; the entity controls the tangible natural resource as a result of past events; and the tangible natural resource can be measured reliably.

De-recognition of Subsoil Asset

An entity shall derecognize a Subsoil Asset when, and only when:

a) The carrying amount of a recognized tangible natural resource, or a part thereof, shall be derecognized on disposal; when the entity otherwise ceases to control the resource; or when no future service potential is expected from the resource.

b) The gain or loss arising from the derecognition of a recognized tangible natural resource shall be included in surplus or deficit when the item is derecognized.

c) The gain or loss arising from the derecognition of a recognized tangible natural resource shall be determined as the difference between the net disposal proceeds, if any, and the

carrying amount of the item.

d) The consideration receivable on the disposal of tangible natural resources is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 47, Revenue, reflecting the effective yield on the receivable.

Measurement/Valuation Subsoil Assets

Initial Measurement

The initial measurement of tangible natural resources is done as per the following guidelines:

a) Where a tangible natural resource is recognized as an asset as the result of an event that is not a transaction in an orderly market, including non-exchange transactions, the asset shall be measured initially at its **deemed cost.** An entity shall apply IPSAS 46, Measurement when measuring the deemed cost of such a recognized tangible natural resource.

b) A recognized tangible natural resource acquired through an exchange transaction shall be measured **at its cost** as per the principles on elements of cost and measurement of cost under IPSAS 45.

Impairment

Under IPSAS 21, a non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The following indicators shall be considered;

1. Cessation, or near cessation, of the demand or need for services provided by the asset;
2. Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;
3. Evidence is available of physical damage to an asset;
4. Significant long-term changes with an adverse effect on the entity have taken place during the period or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date;
5. A decision to halt the construction of the asset before it is complete or in a usable condition; and
6. Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

Under IPSAS 21, the impairment of non-cash-generating assets is based on the:

a) **Depreciated replacement cost approach:** This approach is usually used when impairment losses arise from damage. Under this approach, the value in use of the asset is determined by subtracting the estimated restoration cost of the asset from the depreciated replacement or reproduction cost of the asset before impairment.
b) **Restoration cost approach:** This is the depreciated replacement cost (before impairment) less the estimated cost required to repair a damaged asset.
c) **Service units approach:** This approach determines the value in use of the asset by reducing the depreciated replacement or reproduction cost of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state.

The choice of an approach depends on the availability of information and the nature of the impairment:

a)The restoration or depreciated replacement cost approaches are used when impairment is due to physical damage of the asset.

b)The service units or depreciated replacement cost approaches are used when there is a long-term change in the use of the asset or when impairment is due to external indicators**.**

12.3.3 International Best Valuation Practices in other Jurisdiction

i. **Australia:** The Australia Bureau of Statistics uses the net present value (NPV) approach to value the stock of subsoil assets. This involves calculating the value of net income and then discounting this value by an appropriate interest rate over the expected life of the asset. Normal returns to produced capital are included to cover the cost of risk and uncertainty. The discount rate chosen has been aimed at reflecting the cost of capital, or the cost of borrowing, to the mining industry.

ii. **Canada:** Canada applies the System of Environmental-Economic Accounting (SEEA) framework, recommended by the UN.The framework uses economic rent methodology, measuring the value of natural resources based on market prices, extraction costs, and depletion rates.

iii. **South Africa:** In South Africa, the cost-based and income-based approaches are applied in valuing mineral reserves. The valuation considers regulatory policies, tax structures, and environmental costs.

12.3.4 Current Valuation Practices in Kenya

In Kenya, subsoil valuation falls under several regulatory frameworks, primarily governed by the

Valuers Act (Cap 532) and guidelines from the Institution of Surveyors of Kenya (ISK). For immovable property, including subsoil assets, valuation is influenced by the Stamp Duty (Valuation of Immovable Property) Regulations, 2020.

In Kenya, subsoil valuation, or more broadly land valuation, considers factors like location, size, soil quality, topography, development potential, and market trends to determine the value of land, which is crucial for various purposes, including property transactions and taxation. Factors such as location, size, land use, accessibility, market demand, infrastructure, and environmental considerations all play a role in determining land value.

12.4 RECOMMENDATION

Valuation of subsoil resources involves determining their economic value. The approach depends on factors such as the resource type, extraction costs, market conditions, and legal or regulatory frameworks. Common valuation models for subsoil include:

i. **Discounted Cash Flow (DCF) Analysis:** The method estimates the present value of future cash flows generated by the resource extraction. It is best for resources with detailed data on reserves, production costs, and market conditions.

ii. **Comparable Transactions (Market Approach):** Values resources based on similar transactions or market price. It is best for well-documented markets with active transactions.

iii. **Net Book Value (NBV):** NBV calculates the net value per unit of resource by deducting all production costs from market prices.

iv. **Real Options Valuation (ROV):** ROV considers flexibility in decision-making under uncertainty, such as delaying extraction until prices rise. It is suitable for high-risk, volatile resource markets

v. **Cost Approach:** Values resources based on the costs of exploration, development, and extraction. It is desirable for early-stage projects or regions with limited data.

Based on the above models of valuation, it is recommended that the entity chooses the most suitable valuation method depending on its situation and context.

Financial, Legal and Institutional implication

a) Financial

Subsoil valuations, particularly in the context of extractive industries like mining, oil, and gas, have significant financial implications.

Reserves as Assets

Subsoil resources (e.g., minerals, hydrocarbons) are often treated as assets on a company's balance sheet. Their valuation affects the company's financial standing and market value.

Accounting Standards

Compliance with standards like IFRS (International Financial Reporting Standards) or IPSAS (International Public Sector Accounting Standards) is crucial, particularly regarding the recognition of reserves and associated depletion or impairment.

Investment Decisions

Accurate subsoil valuations guide decisions on whether to invest in exploration, extraction, or infrastructure development. Factors such as price volatility, extraction costs, and regulatory changes impact the financial attractiveness of subsoil assets.

Tax Revenue

Governments often derive revenue through royalties, taxes, or production-sharing agreements directly linked to the valuation of subsoil resources. Underestimating resource value can lead to undercharging while overestimating may deter investments due to higher fiscal obligations

Environmental and Social Costs

Valuations must account for the financial costs of environmental restoration and compliance with regulatory standards. Compensation for land use or displacement often ties back to the perceived value of subsoil resources.

Economic and Policy Impacts

Governments often include subsoil valuations in natural capital accounting, impacting macroeconomic indicators like GDP. Standard valuation of subsoil is important for the GDP measurement.

12.5 SPECIFIC RESPONSIBILITIES

The following institutions will be responsible for implementation of this policy :

i. Ministry of Mining, Blue Economy, and Maritime Affairs
ii. National Oil Corporation of Kenya (NOCK)
iii. National Environmental Management Authority (NEMA)
iv. Kenya Water Resources Authority (WRA)
v. The National Treasury
vi. The Office Auditor General

vii. Institute of Certified Public Accountants of Kenya (ICPAK)
viii. The County government and related entities
ix. The Public Sector Accounting Standards Board

CHAPTER XIII: VALUATION POLICY FRAMEWORK FOR FINANCIAL INSTRUMENTS

13.1INTRODUCTION

This chapter covers the valuation guidance for financial instruments in the public sector. Statutory receivables and Prepayments are excluded under this framework. The valuation of Financial Assets in the public sector is essential to ensure proper management, accountability, and optimal utilization of government assets.

Definitions

a) **Financial instruments:** These are contracts that give rise to both a financial asset in one entity and a financial liability or an equity instrument in another.
b) **Financial assets:** This is cash, an equity instrument of another entity, or a contract to receive cash at a future date.
c) **Financial liabilities:** These are contractual obligations to deliver cash or another financial asset to another entity.
d) **Equity instruments:** Equity instruments represent an interest in the net assets of another entity. Equity instruments are often common shares or other types of investment in another entity.
e) **Complex instruments:**
   Hedging: Hedging is a strategy used to reduce volatility associated with an identified risk such as locking movement in foreign exchange exposure for a future transaction.
   Derivatives: A derivative is a contract that is settled in cash in the future, where the future cash flows change based on another variable such as an interest rate, commodity price or foreign exchange rate. Common derivatives include: Foreign exchanges forwards/futures contracts; Interest rate swaps; and Options.

Examples of Financial Assets in the Public Sector

a) Cash held with financial institutions such as, Current account, fixed account and call deposits.
b) Accounts receivables.
c) Loans receivable, including concessionary loans.
d) Investment securities such as Treasury Bills and Treasury bonds.
e) Investments in ordinary shares of another entity

13.2 OBJECTIVE

This chapter aims to guide entities on the valuation for financial assets and financial liabilities that is key in the assessment of the amounts, timing, and uncertainty of an entity's future cash flows. The valuation figures will be used in the entity's financial statements and any other applicable use.

13.3 SITUATIONAL ANALYSIS

13.3.1 Existing Legal and Policy provision in Kenya

Financial assets are governed by various legal instruments that include:

a. **The Constitution of Kenya, 2010:** Article 201(d) emphasizes the prudent and responsible use of public resources, reinforcing the need for fiscal discipline.
b. **Public Finance Management Act (Cap 412):** Section 44 provides that public finances are managed in accordance with the Constitution at both the national and county levels of government.
c. **Central Bank of Kenya Act (Cap 491):** Part vi & vii outline the powers and responsibilities of the Central Bank, including its role in formulating monetary policy, managing the country's foreign exchange reserves, and ensuring financial stability
d. **Banking Act (Cap 488):** part ii & ix regulate the licensing, capital requirements, and operations of banks, while also detailing penalties for non-compliance.
e. **Microfinance Act (Cap 493 C):** part iii outlines the licensing, supervision, and regulation of microfinance institutions by the Central Bank of Kenya.
f. **National Payment System Act (Cap 491 A):** Sec 25 empowers the Central Bank of Kenya to regulate and oversee payment systems to ensure their stability and efficiency.
g. **Income Tax Act (Cap 470):** outlines the principles for the valuation of financial assets, ensuring accurate assessment for tax purposes, including capital gains and income recognition.
h. **Accountants Act (Cap 531):** Outlines the principles and application of financial reporting standards in Kenya as adopted from International Standards Setting Bodies Globally**.**

13.3.2 International Standards

i.International Valuation Standards

The following guidelines under the International Valuation Standards (IVS) 500 are important in valuation of Financial Instruments;

i. Values for financial instruments are observable and readily available based on published trades in the exact security.
ii. In other cases, values are developed using industry-standard models based on inputs and adjustments with varying degrees of observability.
iii. For more complex or less liquid products, values may require bespoke models or be developed using internally-developed inputs or assumptions.
iv. In determining values, professional judgements may be required in the areas of data and inputs, valuation models, and quality controls. Depending on the nature of the financial

instrument being valued, as well as the frequency and the complexity of the valuation, the valuer may implement a range of processes which are highly automated using systematic mappings and data feeds, to others that are highly manual and subjective.

v. The valuer must use professional judgement to determine the nature and extent of effort that is performed to develop a value that is consistent with the scope of work and intended use. The valuer must design, implement, and execute processes in the valuation, including quality controls, that appropriately address features of the financial instrument required to value the financial instrument. In applying this, the valuer must understand the contractual, structural, and performance features of the financial instrument to be valued, as well as its liquidity and other information in the market and economic environment as of the valuation date, such as legal or regulatory factors, potentially impacting the value.

vi. If the valuer does not possess the necessary technical skills, experience, data, models or knowledge to perform all aspects of valuation, the valuer should seek the assistance of a specialist or a service organization providing this is agreed by the client and disclosed.

vii. As part of valuation, quality controls must be in place. Quality controls should include a degree of review and challenge. Review and challenge should assess the process implemented and judgements made during the valuation and in determining the value, including review of work performed by specialist or service organizations. In those circumstances in which review and challenge is performed, the processes should be performed by an individual or function that has appropriate skills and experience in valuing financial instruments.

Prevailing IVS guidelines may be referenced for comprehensive financial instruments (financial assets and financial liabilities) valuation.

IVS Valuation Model

a) For a valuation to produce values consistent with the intended use, a valuation must use valuation models that are suitable for the valuation approach for the financial instrument.

b) The Valuer must determine that the valuation model is fit for use in terms of assets and liabilities being valued, the scope of work, and the valuation method.

c) The valuer must apply professional judgement to balance the characteristic of a valuation model shown below:

i. Accuracy: the valuation model is free from error and functions in a manner consistent with the objectives of the valuation,

ii. Completeness: the valuation model addresses all the features of the asset and/or liability to determine value,

iii. Timeliness: the valuation model reflects the market conditions as of the valuation date,

iv. Transparency: all persons preparing and relying on the valuation model must understand how the valuation model works and its inherent limitations.

d) In certain cases, the valuation model may not incorporate all of these characteristics. Therefore,

the valuer must assess and conclude whether the valuation model is appropriate to value assets and /or liabilities in accordance with the scope of work, the valuation method and intended use.

ii. International Accounting Standards

Kenya has adopted two financial reporting frameworks: the International Public Sector Accounting Standards (IPSAS) and the International Financial Reporting Standards (IFRS). Non-commercial entities apply IPSAS, while commercial entities apply IFRS.

The two frameworks provide two standards for accounting for Financial Assets, which are:

i. International Financial Reporting Standard (IFRS) 9: Financial Instruments and,
ii. IPSAS 41: Financial Instruments

- **Recognition of Financial Asset or Financial Liability**

An entity shall recognize initially a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

A financial instrument is derecognized using trade date accounting or settlement date.

- **De-recognition**

De-recognition of Financial Asset

An entity shall derecognize a financial asset when, and only when:

a) The contractual rights to the cash flows from the financial asset expire or are waived.

b) It transfers the financial asset. An entity transfers a financial asset only if it either:

i. Transfers the contractual rights to receive the cash flows of the financial asset, or
ii. Retains the contractual rights to receive the cash flows of the financial asset (original assets) but assumes a contractual obligation to pay those cash flows to one or more recipients in an arrangement that meets the set conditions. This transaction is treated as a transfer only if these 3 conditions are met;

Derecognition of Financial Liabilities

An entity shall remove a financial liability from its statement of financial position when it is extinguished—i.e., discharged, waived, canceled or expires.

A financial liability is extinguished when the debtor either: a) Pays the creditor, normally with cash, other financial assets, goods or services; or is legally released from primary responsibility for the liability either by process of law or by the creditor.

Other Circumstances Resulting to De-recognition

a. An exchange between an existing borrower and lender of debt instruments with substantially different terms.

Substantially different: The terms are substantially different if the present value of the cash flows

under the new terms (including any fees paid net of any fees received) when discounted using the original effective interest rate is at least 10% different from the present value of the remaining cash flows of the original financial liability

b. A substantial modification of the terms of the existing financial liability.

These two circumstances above are accounted for by derecognizing the original financial liability and recognizing a new financial liability.

On de-recognition, the difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in surplus or deficit. Note: Where the terms are not substantially different, the original liability is not derecognized. The liability is restated to the present value of the revised cash flows. Any increase or decrease in the carrying amount is presented in the statement of surplus and deficit.

- **Measurement/Valuation of Financial Assets**

A principles-based approach to classification and measurement/Valuation

The classification of financial assets is the foundation for the requirements for the measurement of financial assets on an ongoing basis, and the requirements for impairment and hedge accounting. IPSAS 41 applies one approach for classification of all financial assets. The two criteria used to determine how financial assets should be classified and measured are:

a) The entity's management model for managing the financial assets; and
b) The contractual cash flow characteristics of the financial asset.

Initial Measurement

Under IPSAS 41, the **initial measurement** of financial assets is generally at **fair value plus transaction costs**. However, if the financial asset is measured at fair value through surplus or deficit, then transaction costs are expensed**.**

Subsequent Measurement

Under IPSAS 41, the subsequent measurement of financial assets depends on their classification at initial recognition. Here are the subsequent measurement models for each category:

a) **Amortized Cost**:
   i. Financial assets held at amortized cost are subsequently measured at amortized cost using the effective interest method.
   ii. Impairment losses or gains are recognized in surplus or deficit.

b) **Fair Value Through Other Comprehensive Income (FVOCI)**:
   i. Financial assets classified as FVOCI are subsequently measured at fair value.
   ii. Changes in fair value are recognized in other comprehensive income, except for impairment losses, interest revenue, and foreign exchange gains and

losses, which are recognized in surplus or deficit.

c) **Fair Value Through Profit or Loss (FVTPL)**:
   i. Financial assets classified as FVTPL are subsequently measured at fair value.
   ii. Changes in fair value are recognized in surplus or deficit.

Revaluation Model

IPSAS 41 focuses on a **single classification and measurement model** for financial assets based on their cash flow characteristics and the entity's management model. Financial assets are classified into three categories: **Amortized Cost, Fair Value Through Other Comprehensive Income (FVOCI), and Fair Value Through Profit or Loss (FVTPL)**.

Impairment

Under IPSAS 41, the impairment of financial assets is based on the **Expected Credit Loss (ECL) model**, which is a forward-looking approach.

1. **Scope**: Applies to financial assets measured at amortized cost and those measured at fair value through other comprehensive income (FVOCI).
2. **Expected Credit Losses**: ECL is the present value of all cash shortfalls over the expected life of the financial asset. Entities must recognize a loss allowance for expected credit losses on financial assets at each reporting date.
3. **Three-Stage Approach**:
   a) **Stage 1**: At initial recognition, a 12-month ECL is recognized. This represents the expected credit losses from default events possible within 12 months after the reporting date.
   b) **Stage 2**: If there has been a significant increase in credit risk since initial recognition, a lifetime ECL is recognized. This considers all possible default events over the expected life of the financial asset.
   c) **Stage 3**: If the financial asset is credit-impaired, the lifetime ECL is recognized, and interest revenue is calculated based on the net carrying amount (i.e., gross carrying amount less the loss allowance).

4. **Measurement of ECL**:
   a) The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
   b) Consideration is given to the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date.

The ECL model helps ensure that entities recognize credit losses earlier and in a more timely manner, providing a more accurate representation of credit risk.

13.3.3 Valuation practices in other jurisdictions

Different countries have different valuation approaches depending on the objective of the valuation.

1. United Kingdom

The following valuation approaches are applied in the United Kingdom:

i. Comparable Transactions: Valuing financial instruments based on recent market transactions.

ii. Income Capitalization: Used for valuing income-generating assets like bonds and real estate.

iii. Binomial Models: Applied for valuing options and other derivatives.

2. Japan

The following valuation approaches are applied in Japan:

i. Market Multiples: Used for valuing financial instruments based on market data.

ii. Dividend Discount Model (DDM): Applied for valuing stocks based on expected dividends.

Monte Carlo Simulation: Used for valuing complex financial instruments and risk management.

3. **South Africa**- The country uses generally recognized accounting practice (GRAP) 104 to recognize, measure and derecognize Financial assets.

13.3.4 Current valuation practice in Kenya

The valuation of Financial Assets is currently guided by IFRS 9 (*Financial Instruments*), IFRS 7 (*Financial Instruments Disclosures*), IFRS 13 (*Fair Value Measurement*), IPSAS 41(*Financial Instruments*), CBK prudential guidelines and other regulations drawn from enabling specific statutes.

13.4 RECOMMENDATION AND RATIONALE

To ensure accurate valuation, the following approaches and methods are recommended, tailored to the specific characteristics of public assets:

a. **Initial Measurement using Fair Value plus Transaction Costs**: Financial assets are initially measured at fair value, plus, in the case of financial assets not at fair value through

surplus or deficit, transaction costs that are directly attributable to the acquisition.

b. **Subsequent Measurement is carried out using any of the three methods namely,** Amortized cost, Fair Value Through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL): Under the Amortized Cost, measurement is through the effective interest method while the impaired losses or gains are recognized in surplus or deficit. The FVOCI measures using the fair value. Changes in fair value are recognized in other comprehensive income, except for impairment losses, interest revenue, and foreign exchange gains and losses, which are recognized in surplus or deficit. The FVTPL measures using the fair value while Changes in fair value are recognized in surplus or deficit.

c. **Expected Credit Loss Model**: Recognizes expected credit losses (ECL) on financial assets measured at amortized cost or FVOCI, which provides a forward-looking approach to impairment. These models ensure that financial assets are measured and reported in a way that reflects their true value and the risks associated with them.

Financial Implication

i. Cost emanating from a financial asset will be a charge in the comprehensive income or as a deficit in the income and expenditure. Positive revaluations will have a reverse charge.
ii. Market Efficiency: Accurate valuation ensures fair pricing and liquidity in financial markets.
iii. Capital adequacy: Impacts financial reporting and regulatory capital requirements, influencing solvency.
iv. Risk management: Helps entities assess credit risk, market risk, and operational risk.

Legal Implication

a. Investor Protection: Transparent valuation policy will prevent fraud and misrepresentation.
b. Regulatory and compliance-Correct valuations of financial assets will facilitate compliance and license renewal by the regulators (CMA, IRA and CBK)
c. Contractual Obligations: The financial instruments valuation will facilitate financial agreements, debt covenants and legal disputes.

Institutional Implications

a. The policy will enhance Governance, Oversight and supervisory role of the relevant authorities.

13.5 SPECIFIC RESPONSIBILITIES

The following stakeholders are responsible for the implementation of the financial asset's valuation framework:

- The National Treasury
- The National and County Government Entities Accounting Officers
- Central Bank of Kenya (CBK)
- Capital Markets Authority
- Retirement Benefits Authority
- Insurance Regulatory Authority
- Institute of Certified Public Accountants of Kenya (ICPAK)
- Public Sector Accounting Standards Board
- Office of Auditor General

CHAPTER XIV: DISPUTE RESOLUTION IN PUBLIC ASSETS VALUATION

14.1 INTRODUCTION

A dispute is a disagreement on a point of law or fact. For purposes of the asset valuation framework, a dispute involves conflicting views or interests between two or more parties on the quantum of an asset(s), particularly those owned by government. Asset valuation disputes may arise from development projects, compensation claims, consumer purchase and regulatory compliance.

14.2 SCOPE AND EXAMPLES OF DISPUTES

The scope of disputes arising from the valuation of assets are categorized below with examples of disputes that can arise as it relates to government:

(a) *Land and buildings:* undervaluation or overvaluation for county, community and public land in compulsory acquisition, property transfer, contested lease or rental valuation, untitled or communal land.

(b) *Motor vehicles:* contested depreciation rates during asset disposal or transfer, insurance valuations, variations between book and market value.

(c) *ICT Equipment:* inconsistent considerations in the value of outdated equipment that are still in use, contested valuations during inter-agency transfers or audits.

(d) *Furniture, fittings and equipment:* valuation disputes during audits or disposals, disagreements over depreciation based on condition, inaccurate asset tagging and records affecting valuation accuracy.

(e) *Public infrastructure assets*: Disputes over valuation of an asset (e.g., roads, energy installations, and communication networks) for financial reporting or investment purposes, disagreements on replacement cost *vis a vis* economic value, contested valuations in concession agreements.

(f) *Intangible assets:* conflicts over valuation of intellectual property or goodwill during public-private partnerships or licensing, disputes on projected revenue models or ownership share.

(g) *Financial assets* (e.g., shares, bonds, business goodwill): contested share or bond pricing during divestiture, contested goodwill valuation of public enterprises, disputes in audit valuations of government investments.

(h) Plant and Machinery: disputes on applicable valuation standard during disposal, or in leasing arrangements, or on assessment and adjustments to be made for specialized machinery.

(i) *Biological and subsoil assets:* valuation conflicts over minerals, forests, wildlife, or water rights during licensing or compensation, disputes over fluctuating market values or resource estimation methods.

(j) *Heritage assets:* disputes over valuation of artifacts or heritage sites for insurance, audit, or restitution purposes due the lack of market comparables or assessing the value of cultural significance.

(k) *Portable and Attractive Items:* disagreements over residual value in audit findings, contested losses or write-offs, or disputes arising from inconsistent valuation across different Ministries, Department, Agencies and State Corporations.

i. Types of Dispute Resolution Mechanisms

Dispute resolution can be categorized as follows:

(a) *Litigation:* use of the court system to resolve disputes. The system of courts is established in Article 162 of the Constitution, and it includes courts such as the Environment and Land Court which has original and appellate jurisdiction to hear and determine all disputes relating to land administration and management.

(b) *Alternative Dispute Resolution (ADR):* any mechanism of resolving a dispute outside of the formal court structure. This includes negotiation, mediation, arbitration and conciliation.

The appropriate dispute resolution mechanism to be adopted depends on the nature, value, and complexity of the asset in question, parties involved, geographical or regional considerations as well as the relevant statutory or juridical forum for redress arising out of the circumstances. Parties should involve experts in the relevant fields during negotiations where asset valuations are of a complex and technical nature, to avoid unnecessary escalation of the dispute. Where a dispute resolution mechanism is not expressly provided in statute or agreement on mandatory terms, a tiered approach should follow based on the particulars of the dispute, the parties involved and any significant geo-political considerations.

ii. Government Offices and Institutions Involved in Dispute Resolution

i) *The Judiciary:* Article 159 of the Constitution of Kenya establishes the Judiciary as an independent arm of government with the primary role to exercise judicial authority and resolve disputes in a just manner.

ii) *The Attorney General:* Article 156 of the Constitution madates the Attorney General as the principal legal adviser to the Government who represents the national government in court or in any other in civil legal proceedings.

iii) *Chief Government Valuer:* the principal advisor to the national government and county governments on all matters relating to valuation.

iv) *Nairobi Centre for International Arbitration:* established by the Government of Kenya as a regional center for international commercial arbitration and the Arbitral Court and to provide for mechanisms for alternative dispute resolution in Kenya.

14.3 OBJECTIVES OF DISPUTE RESOLUTION MECHANISMS

i) To ensure timely and efficient resolution of asset valuation disputes, with respect for both legal and technical standards.

ii) To provide clear and fair guidelines for resolving asset valuation disputes.

iii) To offer flexible mechanisms that can be adapted based on asset type, value, and parties involved.

iv) To incorporate technical expertise in cases where the subject matter is specialized or complex.

v) To preserve national and diplomatic interests, particularly for disputes with international or cross-border elements.

14.4 SITUATIONAL ANALYSIS

14.4.1 Current Legal Framework for Dispute Resolution

1.Constitution of Kenya, 2010

Article 60 (1) (g) of the Constitution encourages communities to settle land disputes through recognised local community initiatives consistent with it.

Article 67 (2) (f) also mandates the National Land Commission to encourage the application of traditional dispute resolution mechanisms in land conflicts.

Article 159 (1) (c) of the Constitution recognises alternative forms of dispute resolution, including reconciliation, mediation, arbitration and traditional dispute resolution mechanisms, which should be promoted. However, this is conditional, provided that the traditional dispute resolution mechanism shall not be used in such a way that it:

(a) contravenes the Bill of Rights;

(b) is repugnant to justice and morality or results in outcomes that are repugnant to justice or morality; or

(c) is inconsistent with this Constitution or any written law.

Article 189 (3) and (4) provides that in any dispute between governments, the governments shall make every reasonable effort to settle such disputes, including by means of procedures provided under national legislation. The national legislation must provide procedures for settling inter-governmental disputes by alternative dispute resolution mechanisms, including negotiation, mediation and arbitration.

2. Land Act, Cap 280

Section 25 (2) of the Land Act provides that if the National Land Commission elects to purchase any buildings, any disagreement as to the purchase price of the buildings, shall be resolved by reference to an independent professional valuer who shall be appointed by the NLC through an open, transparent and competitive process as per the public procurement law.

Section 98 of the Land Act provides that in a sale by a private contract, the chargee shall be entitled to rely on a valuation carried out by a valuer who is registered with the institute of Surveyors of Kenya and the report shall in the absence of a manifest error, be conclusive in relation to the market price. This is conditional on the valuation report not being more than six months old at the time of sale.

Section 128 of the Land Act provides that any dispute arising out of any matter provided for under the Act may be referred to the Land and Environment Court for determination.

3. Community Land Act, Cap 287

Section 39 of the Community Land Act provides that a registered community may use ADR mechanisms including traditional dispute and conflict resolution mechanisms (at the first instance) where it is appropriate to do so, for purposes of settling disputes and conflicts involving community land.

Sections 40, 41 and 42 recognise mediation, arbitration and judicial proceedings respectively, with the court being the last resort to dispute resolution on community land matters.

4. Small Claims Court, Cap 10A

Section 4 (1) of the Small Claims Court Act, 2016 establishes the Small Claims Court as a subordinate court required to adopt measures that ensures timely disposal of cases using the least expensive method, equality, fairness of process and simplicity of procedure.

As per Section 12 (1) of the Act, the statutory lead time for all filed cases as per Section 34 of the Act is sixty days (60).

The pecuniary jurisdiction of the Court is set at one million shillings as per the provisions of Section 12(3) of the Act.

5. Arbitration Act, Cap 49

The Arbitration Act governs arbitration agreements and applies to domestic and international arbitration. Section 4 provides that the arbitration agreement must be in writing and may be in the form of an arbitration clause in a contract or in the form of a separate agreement.

Parties are free to agree on the procedure to be followed by the arbitral tribunal in the conduct of the proceedings and the choice of law or legal system. Section 27 (1) (a) of the Arbitration Act permits an arbitral tribunal to appoint one or more experts to report to it on specific issues to be determined by the arbitral tribunal.

Section 32A of the Arbitration Act provides that an arbitral award is final and binding upon the parties to it, and no recourse is available against the award unless it is set aside by the High Court on the grounds permissible.

Section 36 provides for the recognition and enforceability of domestic and international arbitration awards.

Kenya is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted by the United Nations General Assembly on 10th June, 1958.

6. Nairobi Centre for International Arbitration Act, Cap 49A

The Nairobi Centre for International Arbitration (NCIA) was established by the Government of Kenya as a regional center for international commercial arbitration and the Arbitral Court and to provide for mechanisms for alternative dispute resolution in Kenya.

Section 21 of the NCIA Act establishes a Court known as the Arbitral Court to hear and determine all disputes referred to it in accordance with the NCIA Act, the rules or any other written law.

Section 24 of the NCIA Act enables the Arbitral Court to adopt and implement, on its own motion or at the request of the parties, any other appropriate means of dispute resolution.

The NCIA (Arbitration) Rules 2015 and the NCIA (Mediation) Rules 2015 have institutionalized a structured way of utilizing the two techniques to dispute resolution.

7. Intergovernmental Relations Act, Cap 265F

The Intergovernmental Relations Act provides a framework for consultation and co-operation between the national and county governments and amongst county governments, together with mechanisms for the resolution of intergovernmental disputes where they arise.

Section 31 of the Intergovernmental Relations Act, 2012 stipulates that in dispute resolution, the national and county governments shall take all reasonable measures to:

(a) Resolve disputes amicably; and

(b) Apply and exhaust the mechanisms for alternative dispute resolution provided under the Act or any other legislation before resorting to judicial proceedings as contemplated by Article 189 (3) and (4) of the Constitution.

8. Mining Act, Cap 306

Section 117(2)(i) of the Mining Act mandates that a mineral agreement should include resolution of disputes through an international arbitration or a sole expert.

Section 153(5) and (6) provide that where a demand or claim for compensation is disputed, the parties to the dispute shall seek to resolve the dispute amicably by agreement reached through negotiations in good faith, and if it remains unresolved, either party to the dispute may refer the matter to the Cabinet Secretary for a determination.

Nonetheless, section 154 of the Mining Act provides the general provisions on dispute resolution, to wit, any dispute arising as a result of a mineral right issued under the Act, may be determined by the Cabinet Secretary as prescribed, through a mediation or arbitration process as may be agreed upon by the disputing parties or as may be stated in an agreement, or through a court of competent jurisdiction.

9. Valuers Act, Cap 532

The Valuers Act provides for the registration and regulation of professional valuers to ensure competence and ethical standards in the valuation profession.

It establishes the Valuers Registration Board, responsible for maintaining the register of valuers, setting qualification standards, and overseeing professional conduct.

The Act mandates that only registered valuers may practice or hold themselves out as such and outlines disciplinary procedures for misconduct for the protection of the public when seeking property valuation services.

10. National Rating Act No. 15 of 2024

The National Rating Act was enacted to:

(a) give effect to Articles 190(1) and 209(3)(a) of the Constitution by providing for a uniform legislative framework and mechanisms on how the county governments undertake valuation for rating and imposition of rates on ratable property;

(b) enhance use of appropriate technology in undertaking valuation for rating and rating related purposes; and

(c) provide for the role of the Chief Government Valuer in respect to collation of all valuation rolls prepared and deposited by any county government.

Section 25 of the National Rating Act establishes the Chief Government Valuer as the principal advisor to the national government and county governments on all matters relating to valuation.

14.4.2 Factors Guiding Dispute Resolution Mechanisms

The factors to be considered when selecting the choice of dispute resolution mechanism include the following:

i) Parties Involved

(a) *Government versus Private Sector*: Disputes between government (national or county) and private entities or between should be resolved through structured and acceptable dispute resolution mechanisms which may be identified contractually or as a statutory requirement.

(b) *Private parties*: Disputes between private individuals, companies or entities where the parties involved are not representing the government or a public or community interest.

(c) *Community*: disputes may arise between communities or within members a community impacts the collective well-being of the community.

(d) *Intergovernmental*: Disputes between or among National and County governments and their entities should be handled at the county level or escalated to the intergovernmental mechanisms available for resolution.

(e) *International:* Cross-border disputes with international entities should be referred to regional or international arbitration bodies or settled through diplomatic channels as appropriate.

ii) Nature of the Asset

Asset valuation disputes should be addressed with attention to context and the necessary specialized expertise or skills required, for example:

(a) Real estate or land conflicts are best resolved through mechanisms established by relevant statutes or local mediation (customary land disputes) and should involve experts in land valuation and property law.

(b)Where the dispute involves a natural resource such as minerals, water, or forests, input from specialists in geology, environmental science, or resource management is necessary.

(c) For intangible assets such as intellectual property, goodwill and financial holdings, professionals in IP law, business valuation, and market analysis should be involved.

(d)Infrastructure asset valuations, including energy and communication networks, benefit from the expertise of technical engineers and industry specialists.

iii)Value of the Asset or Claim

a)*Small Claims:* Court has jurisdiction to determine civil claims relating to contract for sale and supply of goods or services or liability in tort in respect of loss or damage caused to any property with a pecuniary value of Kshs 1,000,000 are best handled by the Small Claims Court. The establishment of the court is part of a wider initiative to enhance the ease of doing business through the reduction of cost and time of resolving commercial disputes.

b)*Low-Value Claims*: For claims involving low-value assets (categorized as between KES 1 – 10 million), Alternative Dispute Resolution (ADR) method should be prioritized to avoid unnecessary legal costs.

c)*High-Value Claims:* For high-value assets (categorized as above 10 million), arbitration or litigation should be the preferred approach, with expert support to ensure accurate valuations.

iv) Diplomatic and Regional Considerations

(a)*Cross-Border Disputes*: Disputes involving assets shared across borders or with foreign entities (e.g., international infrastructure projects and shared natural resources) should be resolved through diplomatic channels or international arbitration.

(b)*Regional Agreements*: For disputes involving regional resources (e.g., river basins, transnational infrastructure projects), regional mechanisms such as the East Africa Community or the Common Market for Eastern and Southern Africa should be engaged to facilitate resolution.

14.4.3 International Best Practices for Dispute Settlement Mechanism

i) United Kingdom

The UK has long recognized alternative dispute resolutions such as mediation, as an effective method for resolving disputes without resorting to litigation. This is seen as beneficial for maintaining relationships and offering a more flexible resolution process.

The Civil Procedure (Amendment) Rules 2025, promotes alternative dispute resolution (ADR) mechanisms, by encouraging parties to consider ADR methods as a preferable initial step in disputes resolution especially in litigation matters.

It is worth noting that the distinction between *non-binding* and *binding* ADR is crucial. With binding ADR processes the outcome is final and can be enforced e.g. an arbitration decision can be enforceable in the same way as a court judgment, and there are limited grounds in which a person can appeal the final decision.

With non-binding ADR processes, unless the parties reach a legal settlement, the ADR process will not give rise to any binding judgment or award, meaning that a party can proceed with litigation to resolve the dispute if they are not satisfied with the outcome of such a process. An example is mediation: a mediator has no decision-making power, which means the dispute will be resolved on terms agreed to by the parties in a dispute. However, it only becomes legally binding when the parties sign a legal agreement documenting the terms of their agreement.

In asset valuation disputes, the emphasis on ADR methods enable parties reach a consensus on value of assets without lengthy litigation thereby reducing adversarial tensions and promoting for cooperative negotiation.

ii) Germany

Germany has a legal system that supports both litigation and structured methods of alternative dispute resolution. The German Code of Civil Procedure encourages the resolving disputes through alternative means, and judges are required to provide the possibility of settlement to parties of a lawsuit. In the event of commencement of an action, the claimant should declare in the statement of claim whether mediation has been tried beforehand, and if not, the relevant reasons for the refusal of conducting mediation in the given case.

Mediation is recognized as a legitimate process and with the enactment of the German Mediation Code in 2012, there is a regulatory framework to govern mediators in domestic and international cases in Germany. The European Code of Conduct for Mediators is relevant to Germany as a member of the European Union.

In sectors such as manufacturing, complex valuations like machinery and patents are common and disputes arise. Mediation promotes the involvement of both valuation specialists and technical experts to enhance understanding of asset value and its operational implications.

iii) Singapore

Singapore has one of the most prominent arbitration centres, providing advanced facilities and experienced arbitrators. The Singapore International Arbitration Centre (SIAC) is known for its efficiency and effectiveness in resolving international disputes.

The Arbitration Act (2001) and the International Arbitration Act (1994) establish a legal framework for arbitration, ensuring enforceability of arbitration agreements and awards for both domestic and international disputes.

Also, the Singaporean government promotes mediation, with mediation as a service provided by the State Courts Centre for Dispute Resolution and the establishment of the Singapore Mediation Centre which support mediators and provide platforms for mediation particularly before arbitration proceedings. The State Courts encourage parties in all claims to consider ADR as the "first stop", before proceeding for trial, and a judge in the State Courts may refer a case for ADR at any stage of the proceedings.

Lastly, Singapore's proximity to various business hubs and a pro-business legal system make Singapore an attractive venue for resolving contractual and valuation disputes through arbitrations.

14.5 RECOMMENDATIONS AND RATIONALE

There exists a robust mechanism under the laws of Kenya for Parties to select the applicable forum for dispute resolution with emphasis on sector-specific processes towards resolving disputes at both domestic and international levels. Any dispute resolution mechanism adopted by a Government entity should promote efficiency, transparency, fairness, and technical accuracy related to asset valuation in Kenya, while ensuring flexibility to accommodate evolving circumstances, diverse asset classes and maintaining diplomatic relations. Where asset valuations involve technical complexities (e.g., natural resource or intellectual property valuations), parties should involve experts in the relevant fields during negotiations to avoid escalating the dispute.

Dispute resolution for asset valuation should follow a tiered approach based on the nature and particulars of the dispute as follows:

i) Negotiation

Negotiation should be prioritized as the first option for resolving disputes, offering parties an opportunity to reach a mutually acceptable solution without formal proceedings.

Rationale: All parties, including national and county governments, private sector entities, and international actors, must make a good-faith effort to negotiate a solution.

ii) Regional and International Multilateral Mechanisms

For cross-border disputes or issues involving multinational corporations, foreign governments, or multilateral organizations, regional or international dispute resolution mechanisms should be used as applicable to maintain diplomatic considerations.

Rationale: Disputes involving state-owned assets or cross-border resources should be resolved diplomatically or through international arbitration, in a manner that preserves Kenya's national, regional and international interests. International disputes, particularly those involving natural resources, infrastructure, or commercial investments, should be resolved through multilateral bodies such as ICSID, ICC, or utilizing existing dispute resolution mechanisms within the regional organization such as COMESA, EAC, or the African Union.

iii) Mediation

Where consultations and negotiation fails, mediation should be considered as the next step if the dispute is not regulated by existing law or agreements providing a forum for resolution of the dispute.

Rationale: Mediation can address a wide range of disputes, including those involving private-sector entities or county government issues involving local assets (e.g., land, county-owned assets), private business assets, and government-private sector disputes (e.g., infrastructure projects, compensation claims). Technical Experts can be utilized in Mediation.

iv) Arbitration

Arbitration should be considered for disputes involving assets above a certain threshold (e.g. Ksh. 10,000,000), or where parties have agreed to utilize arbitration, where foreign persons are involved, or cases with complex issues requiring specialized expertise (e.g., IP, large infrastructure projects). Arbitration is governed by the Arbitration Act of Kenya which is aligned with international standards and technical experts may be used.

Rationale: Parties are free to agree on the procedure to be followed by the arbitral tribunal in the conduct of the proceedings and the choice of law or legal system. Additionally, our domestic laws (section 36 of the Arbitration Act Cap 49 provides for the recognition and enforceability of domestic and international arbitration awards.

v) Litigation

Litigation should be an option for disputes resolution for small value claims, disputes that cannot be resolved through negotiation, mediation and arbitration, or where parties have agreed to submit the dispute to the jurisdiction of a court.

Rationale: Small value disputes (under Kshs, 1,000,000) are best handled by the Small Claims Court. This option is also applicable where parties prefer the court system rather than ADR, or where a dispute is unresolved for strategically significant assets.

CHAPTER XV: CONCLUSION

Prudent Management of Government Assets and Liabilities will ensure Optimum Economic, Environmental and Social Benefits to the Public. Proper Valuation of Government assets is crucial as it supports long-term planning, informed decision Making; ensure sustainable use of public assets and clear fiscal reporting. The Assets Valuation Policy Framework represents a significant step toward enhancing public sector governance, financial accountability, and resource optimization in Kenya.

The monitoring and evaluation framework will be developed to assess the progress made in the implementation of the policy. The National Treasury in collaboration with agencies implementing this Policy will prepare annual monitoring and evaluation plans and reports. The reports will inform feedback to all stakeholders.

ANNEX 1: IMPLEMENTATION MATRIX

S/No.	Policy Objective	Key Actions/ Activities	Responsible Agency/Stakeholder	Timeline	Resources Required	Performance Indicators	Risks/Mitigation Measures
1.	Issue a circular to inform entities of the new policy	Issue a Circular	• National Treasury	Immediately	• Budget	Circular on valuation of public assets	Risk of bureaucratic delay – **Mitigation:** Carry out Public Participation early
2.	Establish a national standard valuation framework for valuing public assets	Draft SOP for each asset category	• National Treasury • Valuation Taskforce Members • National & County Governments, • Office of Government Valuer	6 months	• Technical experts, • legal experts • Budget	Policy Framework for valuing public assets adopted and published	Risk of bureaucratic delay – **Mitigation:** Carry out Public Participation early
3.	Sensitization of government personnel on valuation standards	Conduct workshops and certification programs	• National Treasury, • Council of Governors, • Government Valuer	Continuous	• Trainers, • Budget	No. of staff trained, Competency assessments	Low attendance – **Mitigation:** Incentivize participation

4.	Develop and update centralized asset register	Inventory all government assets	• National Governments and County Government and their respective agencies	Immediately	• ICT systems, • Field teams, • Budget	No of MDAs with Centralized asset register %assets captured in the Centralized register launched	• Incomplete data • Litigations **Mitigation:** Phased approach & training
5.	Develop and update a consolidated asset register	Inventory of all government assets	• National Governments and County Government and their respective agencies	Continuous	•		• Incomplete data • Litigations • **Mitigation:** Phased approach & training
6.	Implement asset valuation across government entities	Roll out valuation in all ministries & agencies	• National Governments • County Governments • Independent Offices and Constitutional Commissions	Continuous	• Professional valuers, • Field resources	% of assets valued using new standards	• Capacity shortage – • Litigations **Mitigation:** Partner with private sector valuers

7.	Integrate valuation data into national reporting	Link asset register to public accounting systems	• The National Treasury Auditor General, • Accountant General, • County Chief Officer • Accounting Officer the Government entity	Continuous	• Software integration tools, • Finance experts	Audit reports reflect accurate asset values	System mismatch – **Mitigation:** pilot test integration
8.	Research, Monitoring, Evaluation and policy review.	To monitor the implementation of the policy	• The National Treasury	Continuous	•	Monitoring and evaluation reports	
9.	Legislative amendments	To amend the relevant laws to align with the policy.	• The National Treasury • Office of the Attorney General	12 months	• Technical experts, • legal experts • Budget	No. of legislative amendments	
10.	Establishment of the Valuation Board	To establish an assets valuation Board to guide public entities on valuation	• The National Treasury • Office of the Attorney General	12 months	• Technical experts, • legal experts • Budget	The established Board	

Annex II: Valuation/Accounting Standards Translation Table

Standards	**IPSAS/IAS/IFRS**			**IVS/KVPS**
Models	Historical Model	Current Value Model		Valuation models refer to quantitative implementation of a method/technique and the method/technique is within the approach. i.e Automated Valuation Model (AVM)
Bases	Historical Cost Basis	Current Operational Value	Fair Value	Also known as IVS-defined bases of value (IVS 102): Market value, Market rent, equitable value, investment value/worth, synergistic value, Liquidation value Other basis of value under IVS: Fair value (infer to IFRS 13) and Fair Value (Legal/Statutory)
Assets Used for:	Financial and operational capacity	Operational capacity	Financial capacity	The choice of Valuation bases is determined by intended use of valuation.
Measurement Techniques/Approaches		Market approach	Market Approach	Market Approach
		Cost Approach	Cost Approach	Cost Approach
			Income Approach	Income Approach
Methods		Market Approach:		Market Approach:
		Cost approach:		Cost Approach:
		Income Approach:		Income Approach:
Relevant standards	IPSAS 46: Measurements, IFRS 13			IVS 102 and IVS 105