

POSITION PAPER ON COUNTY ASSETS AND LIABILITIES

Introduction

The county governments took over books and records with huge but unverifiable balances. The apparent level of indebtedness of the counties, generated from the inheritance of accounts of the defunct local authorities. Closely related to this problem area, is the inability to determine with acceptable level of certainty the opening balances for both asset and liability categories in the books inherited by county governments. This problem can be linked to the slow process by both the Transition Authority and the Office of the Auditor General to audit and establish the status of the assets and liabilities of the defunct Local Authorities and the former Central Government.

Legal-Policy Framework

The *Transition to Devolved Government Act, 2012* was enacted to among other objectives, provide for policy and operational mechanisms during the transition period for audit, verification and transfer to the national and county governments of assets and liabilities; human resources; pensions and other staff benefits of employees of the government and local authorities. This Act further established the Transition Authority (TA) to perform the following in respect to assets transfer and management:

- prepare and validate an inventory of all the existing assets and liabilities of government, other public entities and local authorities;
- make recommendations for the effective management of assets of the national and county governments;
- provide mechanisms for the transfer of assets which may include vetting the transfer of assets during the transitional period;

Besides, Parliament enacted the *National Governments Coordination Act 2012*, to establish an administrative and institutional framework for co-ordination of national government functions at the national and county levels of governance. Section 21 of the Act stipulates that all property, assets, rights, liabilities, obligations, agreements and other arrangements existing and vested in, acquired, incurred or entered into by or on behalf of the Provincial administration shall vest in the national government. This meant that all assets and liabilities vested in the Provincial Administration reverted immediately to the National Government in the outset of County Governments.

3.0 Status of National and County Government Assets and Liabilities

The TA initiated a number of efforts geared towards effective management of assets of the national and county governments. The common efforts include:

- The Transition Authority issued an order(**moratorium**) barring all public entities from transferring assets and liabilities before March 2016;
- The TA published the Regulations for Transfer of Assets and Liabilities during The Transition Period, 2012. The Regulations established a **Technical Committee** to oversee the same. The functions of the Committee included:
 - a) facilitate an audit of assets and liabilities in public entities and advise the Authority accordingly;
 - b) prepare and validate an inventory of all existing public assets and liabilities in public entities and submit a report to the Authority;
 - c) advise the Authority on the transfer of shared assets, and liabilities of public entities
 - d) recommend to the Authority to review or reverse the irregular transfer of assets and liabilities in public entities that are effected during the transition period
- The TA in collaboration with the Auditor General established an **Integrated National and County Assets Register Centre (INCAR)** to prepare an interim register of assets and liabilities of the 47 counties.

4.0 Recommendations

Indeed in accordance to the International Accounting Standards, accounting for property, plant and equipment is essential in enabling the users of the financial statements to discern information about an entity's investment in its property, plant and equipment and the changes in such investment. For a long time, Kenyans have not known how many assets the government own, their carrying amounts and the depreciation charges and impairment losses relating to them. Further, the government has disposed many assets without proper audit and the ascertainment of their depreciation.

The Institute therefore proposes the following:

- 1) Establish a cut-off date at which point the book balances are decomposed by splitting the books and records in two clusters: the old but unverifiable balance and new balance;
- 2) The county government must commit a significant portion of the resources available to it to develop and enhance capacity for service delivery, with minimal resources assigned to chasing after the old debt or balances to free county resources for engagement on current value adding activities;

- 3) In dealing with the old and hard-to-verify balances, priority shall be given to identification, valuation and registration of those balances whether they are in respect of assets or liabilities. This is a process that would have to be undertaken in consultation with the Ministry of Devolution and Planning;
- 4) Consult through the Intergovernmental Budget and Economic Council to lobby the National Government and Parliament to write off the old balances. The huge balances were actually a creation of the structures under the defunct system. It is therefore inequitable for the burden of such balances to be whole inherited by the County Governments.
- 5) The TA and Auditor General, through the Integrated National and County Assets Register Centre (INCAR) should strive to finalize the Interim assets register and avail the Report to the Public.

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