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Asset Management for Counties

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Enhancing Accountability

Areas



- ☐ Importance of asset management
- ☐ Identifying County Assets
- ☐ Regulatory Framework
- ☐ AM Cycle:
 - ☐ Planning
 - ☐ Maintenance
 - ☐ Disposal
- ☐ Accounting and Reporting
- ☐ Risk Management
- ☐ Challenges
- ☐ Key issues



Asset Management



- ❑ ISO 55000 defines asset management as
 - ❑ “ coordinated activity of an organization(county) to realize value from assets”. Goes beyond just maintenance of physical equipment or maximizing of yield
- ❑ ***Asset management*** - the process of decision making, planning and control over the acquisition, use, safeguarding and disposal of assets so as to maximise their service delivery potential and manage the related risks and costs over their entire life

Importance of Asset Management



- ❑ Constitution of Kenya, 2010, Article 174(f): the object of devolution – is to promote social and economic development and the provision of proximate, easily accessible services throughout Kenya
- ❑ County Governments cannot adequately provide public services without the assets to support their delivery
- ❑ Assets represent a significant investment that needs to be protected

Importance of Asset Management



- ❑ Assets are often taken for granted until they fail;
 - ❑ A failed asset can have negative consequences for a county including loss of credibility/reputation/image of the leaders and may lead to financial losses
 - ❑ A failed asset can also have both social and economic effects on the county
- ❑ The objective of asset management – assists organizations(counties) in meeting a required level of service in the most cost effective way, and ensures long term sustainability of the organization(county)

Identifying County Assets



- ❑ County assets may be viewed as comprising “the fruits of nature or the work of previous generations”. 2013 – Johor Bahru, Malaysia November Presentation to 46th EAROPH Regional Conference,
- ❑ To manage assets effectively, it is important to know and to understand your assets:
 - what is it?
 - who owns it?
 - who has it?
 - where is it?
 - what does it do?
 - how big/much is it?
 - what is the value?
 - who wants it?
 - who knows about it?
- ❑ What are the examples of county assets?

Identifying County Assets



- ❑ There are various types of county assets which can be classified as moveable or immovable, tangible or intangible, current or non-current
- ❑ County assets range from;
 - land, buildings, motor vehicles, plant and equipment, IT and electronic equipment, software, furniture, infrastructure, biological assets(animals and plantations), certified seeds, breeding stocks, inventories, heritage assets, natural resources.
 - cash, bank balances, cash equivalents like call deposits, investments, outstanding imprests, advances, receivables





❑ Constitution of Kenya, 2010

- Article 10 - national values and principles of governance-good governance, integrity, transparency, accountability and **sustainable development**
- Article 11 - legislation to ensure that that communities receive compensation or royalties for the use of their cultures and cultural heritage
- Article 174 - objects of devolution- to promote social and economic development and the provision of proximate, easily accessible services
- Article 201- principles of public finance-prudent and responsible use of public money

Regulatory Framework



- ❑ Constitution of Kenya, 2010
 - Article 227- procurement of public goods and services - system must be fair, equitable, transparent, competitive and cost-effective
 - Article 232 - Values and Principles of public service - efficient, effective and economic use of resources: responsive, prompt, effective, impartial and equitable provision of services-

Regulatory Framework



□ County Government Act, 2012

- it is the main legislation guiding governance, planning and development of the counties
- **Sec 30** - County Governor is accountable for the management and use of the county resources
- **Sec 104** requires every county government to prepare planning frameworks integrating economic, physical, social, environmental and spatial planning
- **Section 108-**
 - requires a county to prepare a five year integrated development plan(CIPD)
 - the CIDP should include a financial strategy which should address **asset management strategies**

Regulatory Framework



- ❑ Urban Areas and Cities Act, 2011(revised edition 2015) - keeping of proper records for assets
- ❑ Transition to Devolved Government Act, 2012:
 - provided for a policy and operational mechanism during the transition period for audit, verification and transfer of assets and liabilities(Sec. 7)(e,f,g,h)
 - Moratorium on transfer of assets and liabilities;
 - provides for penalties if transfer occurs without authority from TA (maximum fine KES10M and or 7 years term)
 - any transfer of assets or liabilities made without authority is invalid
- ❑ Interpretation and General Provisions Act- Revised edition 2014- section 23 and 24 provisions respecting amended written law and effect of repealing written law

Regulatory Framework



- ❑ Intergovernmental Relations Act, 2012
 - Sec 27- any transfer or delegation of powers, functions or competences shall be accompanied by adequate resources
 - Establishes the Intergovernmental Relations Technical Committee(IGRTC)
 - IGRTC has taken over the residual functions of the TA
- ❑ IGRTC to complete verification of assets and liabilities of the defunct local authorities

Regulatory Framework



□ PPAD Act, 2015

- The Act provides comprehensive procedures for efficient public procurement and for asset disposal by public entities
- Section 33- roles and responsibilities of county governments with respect to public procurement and asset disposal
- Responsibility for public procurement and asset disposal lies with the County Treasury

Regulatory Framework



- ☐ National Land Commission Act, 2012: among the functions of the Commission is to manage public land on behalf of the national and county governments
- ☐ NLC has issued guides to County Spatial Planning including monitoring and oversight guidelines
- ☐ Policy context - Sessional Paper Number 3 of 2009 on The National Land Policy which provides direction on management and use of land and land based resources in the country

Regulatory Framework



☐ Public Finance Management Act, 2012

☐ County Treasury:

- Sec 104 - custodian of the inventory of the county government's assets is the County Treasury which is headed by CEC-Finance
- Sec 147- County Clerk acting is the custodian of the county assembly's assets



Regulatory Framework



- PFMA, 2015: Sec 149- responsibilities of accounting officers -
- manage the assets of the entity to ensure **value for money** when acquiring, using or disposing of its assets
 - dispose of assets at the **most competitive price** and at the **lowest possible cost**
 - ensure that the respective county government entity has **adequate systems and processes** in place to plan for, procure, account for, maintain, store and dispose of assets, including an **asset register** that is current, accurate
 - asset register to be available to the Auditor-General

Regulatory Framework



❑ Public Finance Management Regulations, 2015(County Governments)

- Part XII is on asset management
- Requires the accounting officer of the county government entity to take full responsibility and ensure that proper control systems exist for assets



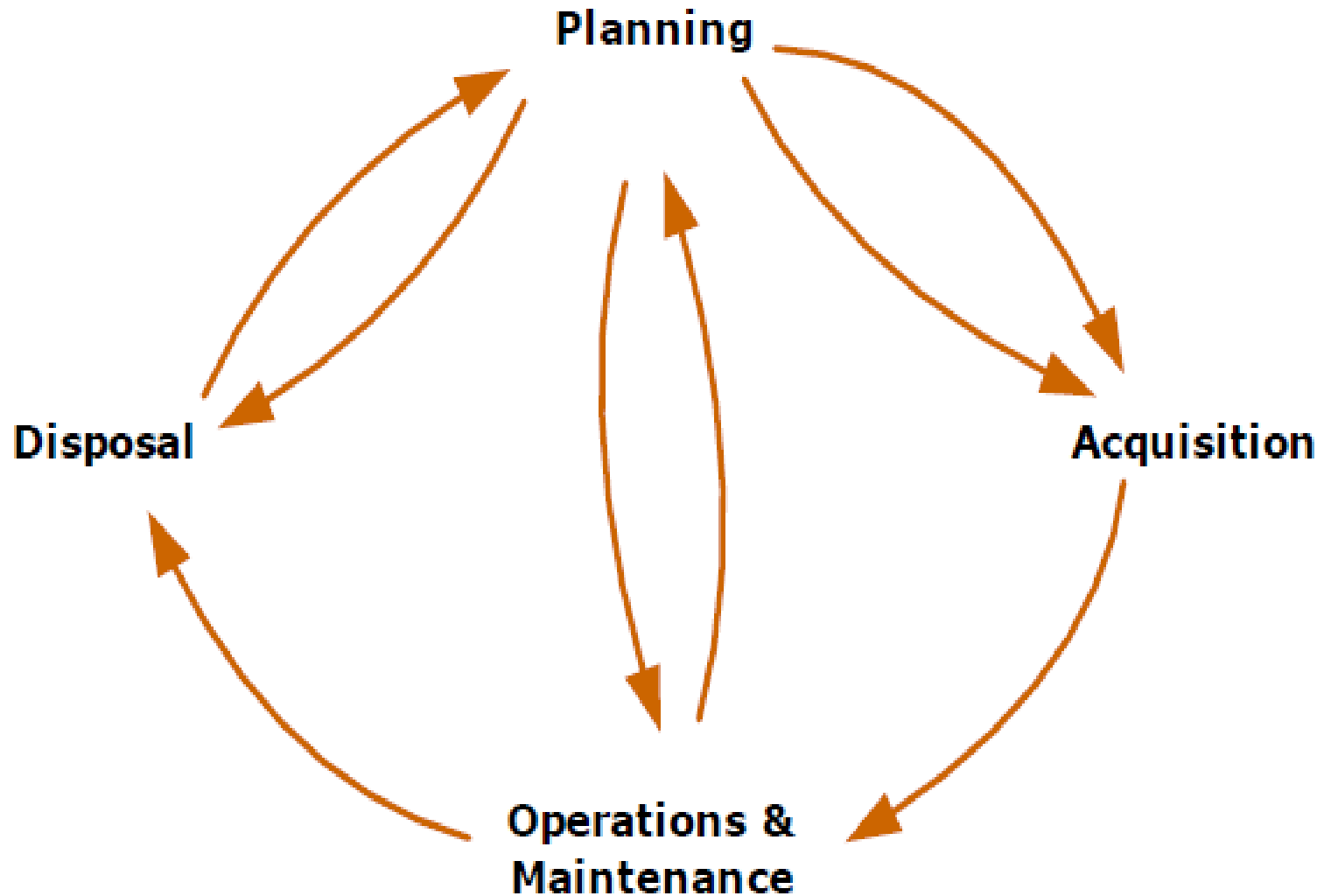
Regulatory Framework



□ Control systems include;

- Preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse
- Systems to track movement and condition of assets
- Stock levels are at an optimum and economical level
- Processes and procedures are in place for the effective, efficient, economical and transparent use of the assets
- Clear on management of inventories including handing over procedures for assets and liabilities
- Handling of losses and write offs after investigation

Asset Management



Planning for Assets



- ❑ Asset management is at the core of county planning through the strategic plan of the county (5 year county integrated development plan-CIDP)
 - The county plans are the basis for all budgeting and spending in a county
 - align a county's financial and institutional resources to agreed policy objectives and programmes
- ❑ CGA, 2012: no public funds shall be appropriated **outside a planning framework**
- ❑ PPDA, 2012 - Regulation 114:
 - procurement for goods, works and services, including capital investments, shall comply with a prior approved procurement plan
 - annual procurement plan shall form the basis for procurement activities

Planning will help us move.....



..from this...

....to this



AM Policy



☐ ***Asset management policy*** –

- ☐ a formal statement adopted by the county
 - ☐ outlines the county's objectives, policy principles, targets and how these will be pursued
-
- ☐ The AM Policy establishes a platform for service delivery and provides the framework (guiding principles) that enables the asset management strategy and plans to be produced

AM Strategy



- ❑ ***Asset management strategy*** – the means by which the county proposes to manage its assets to meet its goals and objectives most effectively
- ❑ AM strategy will outline how the county's asset portfolio will meet the future needs and enable the achievement of the asset management policy in the most cost effective manner
- ❑ CGA, 2012 -Section 108(4) -county integrated development plan to include a financial strategy that addresses **asset management strategies**

AM Plan



☐ ***Asset management plan –***

- a plan for managing the county's infrastructure and assets
- plan to deliver an agreed standard of practice in a cost-effective manner now and in future

☐ **AM Plan should be developed for all asset classes;**

- with a view to operating, maintaining and renewing assets in the most cost-effective manner
- ensuring provision of a specified level of service

☐ **It can be divided into two areas;**

- Asset operations plan
- Asset maintenance plan

Maintenance



- ❑ PPDA, 2015 – Sec 162 on management of inventories, stores and assets;
 - Shall not be allowed to suffer deterioration from any preventable cause and overstocking to be avoided
 - Prescribes for a policy on lifespan on each category of items before boarding for disposal
 - Regular and proper maintenance ensures continued service delivery and enhances performance and lifespan of an asset

Disposal



- ❑ PPDA, 2015- Part XIV Sec 164:
- ❑ Unserviceable, obsolescent, obsolete, surplus stores, equipment and assets- expert technical reports required
 - **Obsolescence** occurs when an asset's technology is surpassed by newer and/or different technologies (PC)
 - **Depletion** is the gradual loss of market value of an asset as it is being consumed or exhausted (oil well, timber)
 - **Deterioration** is the general loss in value of an asset due to aging process (production machinery)
- ❑ Assets may require rehabilitation, refurbishment, overhaul, repair, replacement
- ❑ Accounting officer to establish a disposal committee
- ❑ PPDA, 2015, Sec 165: provides the various methods of disposal

Accounting and Reporting



- ❑ Accounting and Reporting Framework
- ❑ Counties can only report what is on record- **asset register**
- ❑ Regardless of the size of the asset portfolio, it is important to maintain a record of each asset, both monetary and non-monetary information over the entire lifecycle of each asset for the purposes of;
 - accountability
 - asset planning
 - monitoring performance and
 - for assisting in legislative compliance and meeting accounting standards
- ❑ Asset registers enable counties to monitor the acquisition, operation and disposal of their assets

Accounting and Reporting



□ PFM Regulation 136

- The Accounting Officer is responsible for maintaining a **register of assets**
- **Register of land and buildings** to record;
 - each parcel of land and each building
 - the terms on which it is held, with reference to the conveyance,
 - address, area,
 - dates of acquisition,
 - Dates of disposal or major change in use,
 - capital expenditure, lease hold terms, maintenance contracts
 - other pertinent management details.
- All major items including furniture and equipment, large tools for county government works, plant, equipment, vehicles, large motor boat **shall be recorded in a register**

Accounting and Reporting



- ☐ PPDA, 2015: Sec 159
 - an accounting officer to only receipt goods, works and services which have been certified
 - accounting officer to record goods works and services received in an **inventory**
- ☐ Financial Reporting Standards Guidelines issued on 1 July 2014 and Gazette Notice No. 94 of 8th August, 2014 (PSASB):
- ☐ The National and County government and their respective entities shall apply IPSAS cash basis
- ☐ Financial assets – prescribed format
- ☐ Annexure for other assets

Accounting and Reporting



- ❑ Counties should report assets as follows;
 - fixed assets acquired/constructed during the year including renovations of capital nature
 - breakdown of the assets(statement of receipts and payments and notes
 - cash and bank balances and receivables (imprests and advances now included as receivables) in the statement of assets.
 - note to financial statements to disclose all bank accounts and amounts and cash in hand- an annexure with a list of imprest holders and advances
 - an annexure showing a summary of fixed assets owned by the entity

AM Risk Management



- ❑ Risk is the combination of the probability or likelihood of an event and its consequences
- ❑ Management - must consider the county's exposure to risk throughout the asset management process
- ❑ Risk management –
 - a structured way to identify and
 - analyze potential risk, and devise and implement appropriate responses according to classes of risks
 - provides a level of assurance that the systems and equipment that comprise assets will deliver the capabilities



AM Risk Management



- ❑ Requires performance monitoring of the assets themselves against key objectives and performance monitoring of the management system itself
- ❑ Responses to identified risk may entail;
 - risk prevention
 - risk transfer
 - minimizing the impact or
 - acceptance of risk
- ❑ A combination of these strategies may apply to manage different individual risks within a particular activity or project
- ❑ Staff should understand the risk management framework and its application within the asset management system processes (identification, reporting, action)



Benefits of AM

- ☐ **improved financial performance:** improving the return on investments and reducing costs
- ☐ **informed asset investment decisions:** enabling the county to improve its decision making and effectively balance costs, risks, opportunities and performance
- ☐ **managed risk:** reducing financial losses, improving health and safety, good will and reputation, minimizing environmental and social impact, can result in reduced liabilities such as insurance premiums, fines and penalties

Benefits of AM



- ❑ **improved services and outputs:** assuring the performance of assets can lead to improved services or products that consistently meet or exceed the expectations of citizens and stakeholders
- ❑ **demonstrated social responsibility:** improving the county's ability to, for example, reduce emissions, conserve resources and adapt to climate change, enables it to demonstrate socially responsible and ethical business practices and stewardship

Benefits of AM



☐ **demonstrated compliance:**

- transparently conforming with legal, statutory and regulatory requirements

☐ **enhanced reputation:**

- through improved customer satisfaction, stakeholder awareness and confidence

☐ **improved organizational sustainability:**

- effectively managing short and long-term effects, expenditures and performance, can improve the sustainability of operations and the organization

☐ **improved efficiency and effectiveness:**

- reviewing and improving processes, procedures and asset performance can improve efficiency and effectiveness, and the achievement of organizational objectives

☐ **better focus on priorities:** optimal choices

Challenges in AM



- ❑ **Focus is on benefit to customers/citizens:**
 - The cost of ownership (or control) and the management and use of the asset influences the total cost – and the quality - of service delivery
- ❑ **Challenge in collecting and managing data for implementing AM:**
 - Asset management decisions need to be based on a proper evaluation of options which take into account all **costs and benefits** over the life of the asset, and incorporate an explicit analysis and determination of an acceptable level of risk
- ❑ **Low level of IT application** in asset management in the public sector is quite low :
 - It is costly to procure and maintain software or technological approaches to support AM (simple)

Challenges in AM



- ❑ **Management responsibility:** Asset procurement and management must be responsible, accountable, open, consistent and ethical. Not always the case in the public sector.
- ❑ **Integration of planning and management processes:**
 - Management is responsible for the integration of asset planning, budgeting, reporting and monitoring as part of their own overall management processes within their entity. An integrated approach may call for consultation with, and coordinated reporting to central agencies

Challenges in AM



- ❑ **Resources challenges:** budgets, low economic growth levels and lack of expertise
- ❑ **Balancing** between what should be done and what the stakeholders require and political interest
- ❑ **Aging assets:** infrastructure that require heavy capital outlay



Issues identified in audit reports

☐ Public Audit Act, 2015

- Article 229 of the Constitution mandates the Auditor-General to audit all counties and all public funds

☐ Key Issues

- Transfer of assets and liabilities of the defunct local authorities
- Risk management
- Lack of fixed asset registers
- Incomplete records
- Wastage
- Lack of ownership documents

Conclusion



- ❑ Managing public assets for their full life cycle requires;
 - well-integrated planning
 - good underlying data about assets and the services that they provide or support
 - and good systems
 - support from the county leadership
- ❑ The condition of assets must be managed effectively for the assets to continue delivering services and in realizing the objects of devolution
- ❑ Records must be complete and maintained continuously
- ❑ Long-term deferring of asset maintenance and renewals can lead to more breakdowns and service disruption, substandard services, and, in the end, failure of services

Thank you

