Republic of Kenya

INTERNAL AUDIT GUIDELINES FOR COUNTY GOVERNMENT ENTITIES

MARCH 2016

GOVERNMENT OF KENYA

INTERNAL AUDIT GUIDELINES FOR COUNTY GOVERNMENT ENTITIES

FOREWORD

Internal audit is an essential component of a good governance framework for all public institutions and is widely used as a key mechanism to assist institutions to manage risks and improve efficiency and effectiveness.

The responsibilities of internal audit vary considerably across public sector entities, as do internal audit organizational arrangements and the way internal audit services are delivered. This is to be expected, given the nature, size and complexity of the public sector. However, there are a range of key elements of good practice that all internal audit functions should demonstrate. These include operational independence, appropriate positioning within an entity's governance framework and a close alignment of the internal audit work plan to the entity's objectives and risks.

The preparation of this guideline has taken into account the International Standards for the Professional Practice of Internal Auditing (Standards) of the IIA.

This guideline includes information on internal audit techniques, methods and procedures followed by the IAGD internal auditors. It will help ensure the delivery of internal audit reports of a consistently high standard and assured quality.

This guide, which has a public sector orientation, is intended to be a reference document for Accounting Officers, Chief Executives, Boards, members of Audit Committees, managers with responsibility for internal audit activities, and internal audit staff.

I encourage all public sector entities to utilize this guide to identify, and apply, best practice principles in order to assist them in building their own internal audit capability within their entities.

HENRY ROTICH
CABINET SECRETARY / THE NATIONAL TREASURY

GOVERNMENT OF KENYA

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Background and Acknowledgement

The need for Internal Audit guidelines arose immediately after the enactment of PFM Act, 2012 and gazettment of Regulations to operationalize the Act.

The PFM Act, 2012 Section (73) and Section (155) requires the National Government and County Governments to maintain internal auditing arrangements. It further states that appropriate arrangements shall be made for conducting internal audit according to the guidelines issued by the Accounting Standards Board which should also be in accordance with best practices for internal auditing.

These guidelines are therefore meant to assist the Internal Audit staff interpret the PFM Act, 2012 and its regulations. The guidelines will also assist the internal audit staff at National and County Government to perform their work as required by the standards and the regulations in a more professional and efficient manner.

I wish to acknowledge the support from our development partners particularly the GIZ Good Governance (GoGo) Programme in funding the development of these guidelines.

I also wish to pay tribute to all members of Technical Committee who closely worked with the Consultant M/S Management Audit Consulting Ltd in making this document a reality. I cannot also fail to recognize the invaluable support to this initiative by the Internal Auditor General.

Dr. KAMAU THUGGE, EBS
PRINCIPAL SECRETARY/NATIONAL TREASURY

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LIST OF ABBREVIATIONS

AC	Audit Committee
AG	Auditor-General
AO	Accounting Officer
BIC	Budget Implementation Committee
CHIAS	County Head of Internal Audit Services
CRF	County Revenue Fund
FS	Financial Statements
HIA	Head of Internal Audit
IA	Internal Audit unit or department
IAS	International Accounting Standards
IFRA	International Financial Reporting Standards
IPPF	International Professional Practices Framework of the Institute of Internal Auditors
OAG	Office of the Auditor-General
PFMA	Public Finance Management Act, 2012
PFMAR	Public Finance Management Act Regulations, 2015
RBIA	Risk-Based Internal Auditing
IASD	Internal Audit Service Department)

GUIDELINE ON PFMA REGULATIONS ON INTERNAL AUDIT

INTRODUCTION

The Internal Audit Services Department (IASD) of the County Treasury plays a key role in ensuring the County Treasury accomplishes its responsibilities by conducting independent internal audit reviews of the operations of County Government Entities. Section 155(1)(a) of the PFMA requires every County Government Entity to have appropriate arrangements in place for conducting internal audit. Paragraph 157(1) of the PFMAR (County Govt) states that "the County Head of Internal Audit Services (CHIAS), in leading the internal audit function within the County Treasury, is responsible for operational aspects of internal audit function within the County Government entities…". Therefore, it is expected that the IASD will play a leading role in ensuring that the internal auditing arrangements within County Government Entities comply with the requirements of the Act and Regulations.

The PFMAR (County Govt) were issued through Legal Notice 35 dated 20th March 2015. The following guidelines/procedures are meant to aid Internal Auditors of the County IASD when reviewing public-funded entities to determine their level of compliance with the Act and Regulations.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
153 – Mandate of Internal Auditors	Internal auditors shall: (a) review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in county government entities, including County Assembly;	***The purpose, authority and responsibility of internal audit activity should be formally defined in a Charter. There should be no restrictions on the scope of the Internal Audit Department's work, and Internal Auditors should be entitled to unlimited access to information, or explanations they consider necessary to fulfill their responsibilities.*** (1) Obtain a copy of the duly approved Internal Audit Charter; review and confirm that the mandate, roles and responsibilities of IA are clearly defined therein [**note**: the charter should ideally be signed by the chair of the AC, HIA, and AO]. (2) Review the IA Annual Audit Work Plan and ascertain that audit coverage is comprehensive and covers the entity's entire operations, specifically to provide assurance on the adequacy and effectiveness of the controls, risk management and corporate governance processes set up by management. (3) Scan through the IA reports for the period under review to confirm audit coverage is in line with (2) above.
	(b) have a duty to give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization; and	
	(c) review the effectiveness of the financial and non-financial performance management systems of the entities.	
154 – Compliance with Professional Standards and Code of Ethics	Internal auditors shall comply with the International Professional Practices Framework as issued by the Institute of Internal Auditors from time to time and shall conduct audits in accordance with policies and guidelines issued by the Public Sector Accounting Standards Board to ensure uniformity and consistency across County Government.	***The IA activity should be guided by the IPPF. In particular, compliance with the principles set forth in the mandatory guidance of the IPPF is essential for the professional practice of internal auditing.*** (1) Ascertain whether IA staff are aware of the requirement to adhere to the IPPF (it is desirable that all IA are registered members of the Institute of Internal Auditors – IIA). (2) Ascertain whether the IA activity complies with the IPPF Standards by reviewing the most recent Quality Assurance Review Report [**note**: compliance with the Standards can only be confirmed through a Quality Assessment Review, hence if none has been done, there is no basis for confirming compliance]. (3) Where the level of non-compliance is low, discuss with the HIA and Accounting Officer the measures being taken to ensure full compliance, and assess reasonableness.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
		(4) Determine whether the IA activity conducts audits in accordance with the policies and guidelines issued by the Public Sector Accounting Standards Board.
155 – Independence of the Internal Auditor	(1) The Head of Internal Audit unit in a county government entity shall enjoy operational independence through the reporting structure by reporting administratively to the Accounting Officer and functionally to the Audit Committee.	***To achieve the degree of independence necessary to effectively carry out the responsibilities of the IA activity, the HIA should have direct and unrestricted access to senior management and the AC.*** (1) Review the entity's organization and reporting structure and ascertain the operational independence of the IA activity by confirming that the HIA reports functionally to the AC and administratively to the AO. The level of seniority of the HIA in the entity gives him/her the authority to effectively perform his/her duties, hence the position of HIA should be senior enough to command the respect of other staff in the organization. (2) Discuss with the HIA and ascertain whether he/she has unrestricted access to the chair of the AC, including private access when required. (3) Establish whether the IA activity is provided with the necessary resources to enable it perform its duties effectively. (4) Establish whether all internal audit activities are free of influence by any officer/section in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content. If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties (e.g. AO, chair of the AC). (5) Seek evidence that the HIA confirms operational independence to the Audit Committee, at least annually, of the IA activity.
	(2) An Accounting Officer shall ensure that the organizational structure of the internal audit unit facilitates: (a) the entity to accomplish its internal audit responsibilities; (b) the internal auditor with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports; (c) appropriate action to be taken on internal audit recommendations; and (d) the internal auditor to be independent of the programs, operations and activities he or she audits to ensure the impartiality and credibility of the internal audit work undertaken.	
	(3) The internal auditor shall have unrestricted, direct and prompt access to all records, officials or personnel holding any contractual status and to all the premises and properties of the entity.	(1) The scope of work of the internal audit function should be clearly defined in the IA Charter. Review the charter and confirm that the scope of work is defined therein. (2) There should be no restrictions placed upon the scope of IA work; Internal Auditors should be entitled to unrestricted access to personnel, records, information, and explanations they consider necessary to fulfill their responsibilities. Confirm through discussions with the HIA that indeed this is the position.
	(4) The internal auditor shall respect the confidential nature of information and shall use such information with discretion and only in so far as it is relevant to reach an internal audit opinion.	***The IPPF Code of Ethics, which is mandatory for all Internal Audit practitioners, requires Internal Auditors to "respect the value of information they receive and not to disclose information without appropriate authority unless there is a legal or professional obligation to do so".*** (1) Through discussions, assess whether the Internal

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
		(1) Through discussions, assess whether the Internal Auditors are aware of, and adhere to, the principles contained in the IPPF Code of Ethics. (2) Assess whether the working environment and procedures applied by Internal Auditors enable them to maintain confidentiality of information (e.g. access to audit working paper files is restricted, use of passwords, etc.).
	(1) All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports. (2) Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited.	(1) Confirm that Internal Auditors do not perform any operational duties [1] for the entity, including initiating or approving accounting transactions. They should also not be members of various operations committees of the entity e.g the ministerial tender committee, inspection & acceptance committee, training committee, BIC, etc.
158 – The role of Accounting Officer in risk management	The Accounting Officer shall ensure that the county government entity develops: (a) Risk management strategies, which include fraud prevention mechanism; and (b) A system of risk management and internal control that builds robust business operations.	***The responsibility for an entity's risk management and control processes rests with the entity's AO/CEO and the Board.*** (1) Determine whether the entity has developed a risk management framework in line with 'best-practice' models such as COSO, etc. (**note**: the IAGD, National Treasury has issued "guidelines on implementation of Institutional Risk Management Policy Framework (IRMPF) in the public sector" to guide entities in this process). (2) Confirm that the framework encompasses strategies for fraud prevention and detection. (3) Assess the framework to determine whether it is comprehensive and embedded in the entity's strategic and operational business plans.
159 – Performance Appraisal	(1) Each year the head of internal audit unit shall assess its own effectiveness through an internal performance appraisal and shall carry out annual review of the performance of the internal audit activity commenting on its effectiveness in the annual report to County Treasury.	(1) Discuss with the HIA the Quality Assurance and Improvement program developed for the entity, ensuring that it contains both internal and external assessments. (2) Determine whether the internal assessment includes ongoing monitoring of the performance of the IA function, and is carried out by persons within the organization with sufficient knowledge of IA practices.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
	(2) Each year the Audit Committee shall carry out annual review of the independence, performance and competency of the internal audit activity and comment on their effectiveness in the annual report.	(3) Review the annual report to the County Treasury and ensure that it clearly highlights the effectiveness/deficiencies of the IA function. The report should, where applicable, also include recommendations on how to improve the effectiveness of the IA function. (4) Establish whether an external quality assessment is done at least once every three years, but not later than five years. The broad objectives of the quality assessment should be to: (a) Assess the effectiveness of the IA function in providing assurance and consulting services to the Board, senior management, and other interested parties. (b) Assess conformance to the *Standards* and provide an opinion as to whether the IA activity generally conforms to all of them. (c) Identify opportunities, offer recommendations for improvement, and provide counsel to the HIA and staff for improving their performance and services, and promoting the image and credibility of the IA function. Review the reports of the external quality assessments and determine whether the above objectives have been achieved. (5) Review the AC's annual report to the County Treasury and confirm it adequately covers issues touching on the independence, performance and competency of the IA function.
	(3) At least once every three years but not more than five years internal audit activity shall undergo a professional assessment of its effectiveness undertaken by a professionally recognized body or institution	
160 – Reporting material breaches and persistent material breaches	When indications of fraud, material breaches and wasteful expenditure have been identified in a county government entity in accordance with section 156 of the Act, the head of the internal audit unit shall immediately notify the County Executive Committee Member.	***Ideally, a system should be in place for recording and reporting all instances of fraud and other material breaches that occur in the entity. The record should indicate, at a minimum, the nature and quantum of the fraud/breach, date of occurrence, weaknesses that lead to its occurrence, the action taken against the perpetrators, and the corrective measures taken to prevent its recurrence.*** (1) Establish whether a formal procedure for recording and reporting all frauds, wasteful expenditure and material breaches of the entity's internal controls is in place. (2) Review the records and confirm that the incidences were promptly reported to the entity's AO and the County Executive Committee Member. (3) Determine whether: (a) Appropriate action (disciplinary and legal) has been taken on the perpetrators. (b) Corrective action to minimize the risk of recurrence has been taken.
161 – Prohibition from conducting assurance services	An internal auditor shall not perform audit assignments for providing assurance relating to activities and structures on which he or she has provided consulting services or in which he had been employed over in the last twenty four months.	***Internal auditors should perform their duties objectively, i.e. they must have an impartial, unbiased attitude and avoid conflict of interest. Thus, Internal Auditors should not provide assurance services for activities for which they had responsibility within the previous 24 months.*** (1) Establish whether Internal Auditors are at times called upon to perform non-audit duties.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
		(2) Determine the specific activities, if any, for which Internal Auditors performed non-audit duties within the preceding 24 months and ensure they did not also provide assurance services for those activities within the same period. For purposes of this review: (1) Assurance refers to an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes e.g. financial, performance, compliance, system security, and due diligence engagements; and (2) Consulting services, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the Internal Auditor assuming management responsibility; e.g. counsel, advice, facilitation, and training.
162 – Disciplinary liability on internal auditors	Heads of internal audit units and the internal auditors shall bear legal and disciplinary liability for failure to discharge their responsibilities under the Act and these Regulations. Provided that assurance procedures alone even when performed with due professional care shall not be a guarantee that all significant risk shall be identified.	***Internal auditors are expected to exercise due professional care in performance of their duties, including being alert to the possibility of fraud, errors, omissions, waste, conflict of interest, etc. Due professional care requires the Internal Auditor to exercise the skills and care expected of a reasonably prudent and competent Internal Auditor.*** (1) Determine whether there are instances where Internal Auditors have not discharged their responsibilities under the Act and Regulations. (2) Ascertain whether the omission was as a result of the Internal Auditor's negligence, failure to exercise due professional care, etc. Where the Internal auditor is found culpable, ascertain whether the appropriate legal or disciplinary action was taken.
163 – Risk based audit assessment strategic plan	(1) Internal audit planning shall be carried out on the basis of risk assessment and shall be set out in a three-year strategic plan, on the basis of which an annual internal audit activity plan shall be developed. (2) The annual work plan developed in sub-regulation (1) shall be: (a) submitted to the audit committee by 15th February each financial year; and (b) approved by the audit committee and shared with the Accounting Officer of that entity, in sufficient time for inclusion in the budget of that entity.	(1) Establish that the internal audit unit has developed a strategic plan based on a comprehensive risk assessment of the entity's operations. Where the entity has developed a risk management policy and framework, this should be the basis for developing the strategic plan. (2) Establish that an annual work plan for the current year has been derived from the strategic plan. The annual audit plan should indicate: (a) The activities to be audited and the scope of audit work for each audit visit, based on the risk assessment (i.e. high risk operations should be priorised). (b) The timing of the audit visits. (c) An estimate of the resources required to effectively perform the audit. A higher proportion of internal audit resources should be dedicated to auditing the high-risk activities while a lower proportion of the resources should be used in auditing low-risk activities. (3) Establish that the work plan was discussed and agreed with management and approved by AC and AO in good time (before 15th February) to allow inclusion in the annual budget.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
164 – Communicating results	(1) The findings and recommendations arising from each internal audit assignment should be promptly reported to the accounting officer. (2) The final report, including the actions taken by the accounting officer should be reported to the audit committee in a format to be gazette by the Cabinet Secretary. (3) When updating the management of the progress of an audit assignment , the internal auditor shall: (a) give an oral preliminary report which shall be confirmed in writing within seven (7) days; (b) discuss the findings, conclusions and recommendations with the auditee; (c) issue a signed written report after each internal audit assignment that is objective, clear, concise, constructive and timely; (d) give reports which clearly present the purpose, scope and results of the audit; (e) give reports with recommendations for potential improvement, suggestions of corrective actions and acknowledgement of satisfactory performance.	***Internal auditors are expected to communicate the results of engagements through audit reports. The audit reports are a permanent record of internal audit work, the main product from the IA unit, and the key deliverable to the Audit client*** (1) Determine the assignments completed by internal audit during the period under review; this should include any *ad hoc* assignments undertaken which may not be in the annual audit plan. (2) Establish from the minutes whether the Internal Auditors discuss the findings, conclusions and recommendations with the audit client prior to issuing the final report. (3) Ascertain that an audit report was issued for each engagement, and that the report contains the audit findings and recommendations. The report should also acknowledge satisfactory performance where noted. (4) Establish whether the audit reports are clear, concise and complete. (5) Establish whether the audit reports were issued to the AO in a timely manner by reference to the date of completion of the engagement and the date the report is issued. (6) Establish whether the final report, including the agreed actions by the AO, was submitted to the AC in the format determined by the Cabinet Secretary. (7) Establish whether the issued reports clearly present the purpose, scope and results of the audit and are complete with the necessary supporting documents.
165 – Enforcement of Internal Audit recommendations	(1) The accounting officer of the concerned entity shall be responsible for the implementation of the recommendations made in the audit reports and shall develop response and action plan which they shall submit to the Chairperson of the audit committee within fourteen days.	***Internal audit reports should incorporate the entity's management responses to the audit findings and recommendations. Management responses should include confirmation of the action to be taken, the staff responsible for implementation or continued monitoring, and proposed timeframe for implementation*.** (1) Review the final internal audit reports and confirm that they include management responses, incorporating the staff responsible for implementation of the recommendations and the timeframe within which they must be implemented.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
		(2) Determine whether the AO has put in place an effective system for monitoring the implementation of audit recommendations and the action plan has been submitted to the chairperson of the AC within fourteen days. (3) Review minutes of AC meetings and confirm that follow-up of audit recommendations is part of the agenda.
166 – Preparation and Submission of Quarterly and Annual audit reports.	(1) Each head of internal audit unit shall prepare a quarterly internal audit report which shall cover areas provided for in guidelines and shall be in the format issued by the Cabinet Secretary. (2) The quarterly report in paragraph (1) of this regulation shall be submitted within 14 days of the end of the quarter to the Accounting Officer of the concerned entity, the Audit Committee and the Count Treasury. (3) At the end of each financial year, the County Head of Internal Audit Services shall prepare for the county government clear and comprehensible annual report that consolidates the quarterly audit assurance reports prepared by all internal audit units in county government entities, in accordance with formats prescribed by the Accounting Standards Board.	(1) Obtain the quarterly reports prepared during the period under review, and confirm they were prepared in the prescribed format and submitted to the AO, AC and County Treasury within 14 days of the end of the quarter. (2) Review the annual report prepared by the County Head of Internal Audit Services to confirm it consolidates all the quarterly audit assurance reports from all the entities in the county, and is prepared in the format prescribed by the Accounting Standards Board.

GUIDELINE ON PFMA REGULATIONS ON AUDIT COMMITTEE

INTRODUCTION

Section 155(5) of the PFMA requires each County Government entity to establish an audit committee whose composition and functions are as prescribed by the Regulations. Paragraphs 167 to 175 of the PFMAR (County Govt) deal with the establishment, duties, composition, etc. of the audit committees.

The following guidelines/procedures are meant to guide Internal Auditors in ascertaining the entities have complied with the Act and Regulations with regard to the formation and operations of audit committees.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
167 – Establishment of audit committees	Subject to paragraph 167 (2) of the County Government regulation, each county government entity shall establish an audit committee. The County Treasury, where deemed necessary, may approve the sharing of one audit committee by two or more county government entities. In the case of a shared audit committee, the appointing authorities of the concerned entities shall jointly appoint the chairperson and members of the joint audit committee in consultation with the County Treasury.	***Accounting Officers are responsible for setting up Audit Committees within their entities. Section 148 of the PFMA defines Accounting Officer for County Government entities:*** ***(i) The person responsible for the administration of a County Government entity shall be the accounting officer responsible for managing the finances of that entity.*** ***(ii) The Clerk to the county assembly shall be the accounting officer of the county assembly.*** (1) Ascertain whether the entity has an Audit Committee in place, and whether the AC is shared with any other entity, through discussion with the AO. (2) See evidence that the AC has been formally constituted (i.e. via gazette notice or other legal instrument). (3) Where the AC is shared with another entity, see evidence that the arrangement was approved at Country Treasury level. (4) For shared AC, review the appointment letters and confirm that the chairperson and members were jointly appointed by the appointing authorities of the concerned entities. ***When considering the membership of the audit committee, entities should aim to achieve a mix of expertise and qualification relevant to the nature of the entity, its size and the AC's responsibilities. A majority of members should be independent and external to the entity.***
	(1) There shall be a minimum of three members; excluding a person who shall be appointed to represent the County Treasury in each audit committee and a maximum of five.	Ascertain that the AC has at least three members, excluding the member appointed to represent the County Treasury, and a maximum of five.
	(2) The chairperson of an audit committee shall be independent of the County government entities, be knowledgeable of the organization, have the requisite business and leadership skills and shall not be a political office holder.	Obtain background details of the members of the AC and ascertain that: (1) the chairperson is independent of the entity; (2) the chairperson has reasonable knowledge of the entity, in addition to the requisite business and leadership skills, and does not hold a political office;

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
	(3) In addition to paragraph (5) of this regulation, majority of members appointed to the audit committee shall not be past or present employees of the entity, and shall not have served as an employee or agent of a business organisation which has carried out any business with the concerned entity in the last two years.	(3) The majority of members are not past or present employees of the entity, and have not served as employee or agent of a business organisation which has carried out any business with the concerned entity in the last two years; (4) The members have a good understanding of government operations, financial reporting or auditing; at least one member should have a financial background; and (5) The members have a good understanding of the objects, principles and functions of the entity to which they are to be appointed. Some of the areas of expertise that may inform appointment to the AC include: (a) The business or industry in which the entity operates; (b) Risk identification, evaluation, and management; (c) Project and program management; (d) Information management and security; (e) The operations of government and public sector including information technology systems and controls; (f) The roles of external audit; (g) The application of accounting, auditing and assurance standards; (h) Public sector reporting requirements, including financial and performance reporting; and (I) Internal control, compliance and fraud control.
	(4) All members of an audit committee shall: (a) have a good understanding of county government operating, financial reporting or auditing; and (b) have a good understanding of the objects, principles and functions of the entity to which they are to be appointed.	
	(5) Each Accounting Officer of a county government entity shall ensure that the audit committee is adequately funded and supported.	Assess whether the AC has been provided with the necessary resources, including a secretariat, to enable it perform its duties effectively through: (1) Discussions with the AO. (2) Review of the annual audit work plan, to get an indication of the scope of work of the AC; (3) Review of budgets, to get an indication of the funds budgeted for the AC's work.
	(6) The chairperson of an audit committee shall not serve concurrently as a member of any other committee of the concerned county government entity, however its members can serve in up to a maximum of three audit committees at the same time.	(1) Obtain evidence (e.g. signed declarations) that the chair of the AC does not serve concurrently as a member of any other committee of the concerned County Government entity, and members do not serve in more than three committees. (2) Also confirm that members of the AC do not serve in finance, procurement or other committees which have operational roles.
	(7) The Public Sector Accounting Standards Board shall prescribe guidelines for appointment of audit committees to be approved and gazetted by the Cabinet Secretary.	(3) With reference to the guidelines issued by the Public Sector Accounting Standards Board, confirm that the appointment of members to the AC conforms to the guidelines and has been gazetted by the Cabinet Secretary.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
168 – Duties of the audit committee	The main function of the audit committee shall be to: (a) support the Accounting Officers with regard to their responsibilities for issues of risk, control and governance and associated assurance: Provided that the responsibility over the management of risk, control and governance processes remains with the management of the concerned county government entity; and (b) follow up on the implementation of the recommendations of internal and external auditors.	The main function of the audit committee shall be to: (a) support the Accounting Officers with regard to their responsibilities for issues of risk, control and governance and associated assurance: Provided that the responsibility over the management of risk, control and governance processes remains with the management of the concerned county government entity; andThe functions and responsibilities of a best practice audit committee will generally be to provide oversight to and advice in the following areas: (1) Internal Control System; (2) Governance structures; (3) Risk management; (4) Financial statements (5) Compliance requirements; (6) Internal audit, including approval of annual work plans; (7) External audit; and (8) Other related functions including review of entity's performance framework; relevant parliamentary committee reports and recommendations; and portfolio responsibilities. Review the Terms of Reference of the AC and ensure that the functions are clearly defined therein.
169 – Composition of audit committees	(1) The Accounting Officer of a county government entity shall not be a member of the audit committee, but shall attend meetings of the audit committee by the invitation of the chairperson of the committee. (2) Audit Committee members shall be persons of integrity and in compliance with the requirements of Chapter Six of the Constitution.	(1) Review minutes of the AC meetings to ensure that the AO attends AC meetings only by invitation. (2) Review the criteria for appointment of members to the AC and ensure that, at a minimum, they meet the requirements of Chapter Six of The Constitution of Kenya, 2010.
170 – Terms of appointment	(1) Members of audit committees shall be appointed for a term of three years and shall be eligible for re-appointment for a further one term only. (2) Despite the provision of paragraph (1) of this regulation, after expiry of every term, at least one third of the committee shall retire and not be eligible for re-appointment. (3) The roles and responsibilities of the audit committee shall be laid out in the guidelines issued by the Public Sector Accounting Standards Board.	(1) Review the AC member's letters of appointment and ascertain that the effective date of appointment and term of service are clearly stipulated therein. (2) Confirm that the members who served in the AC during the period under review had not served for more than two three-year terms.With reference to the date of appointment of AC members, confirm that at least one third of the members retire upon expiry of every term and are not re-appointed.***The Audit Committee's broad function is to assist the Accounting Officer and / or the Board in discharging their oversight responsibilities. The oversight responsibilities cover financial reporting and the institution's risk management, control and governance processes.*** Obtain a copy of the guidelines issued by the Public Sector Accounting Standards Board and confirm that the roles and responsibilities of the AC are clearly defined therein.

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
171 – Vacancy of office	(1) A person shall cease to be a member of an audit committee if: (a) That person is convicted of a criminal offence and sentenced to a term of imprisonment of not less than six months; or (b) That person is absent from three consecutive regular meetings of the committee without leave of absence; or c) That person resigns, in writing, from the audit committee; or (d) That persons' term of office expires; or (e) That person ceases to be a member by virtue of withdrawal of his or her nomination to the audit committee by the nominating institution; or (f) That person becomes an employee or officer of the concerned entity; or (g) That person is discovered to have a conflict of interest as described in his or her letter of appointment at the time of his or her appointment and failed to disclose it; or (h) The audit committee is disbanded. (2) The County Treasury shall be informed of any contemplated termination of the services of a person serving on an audit committee for its concurrence.	(1) Review the Entity's processes/procedures for determining whether the AC members comply with the Regulations with regard to membership to the AC. (2) Obtain a list of the members of the AC during the period under review and confirm that their membership did not contravene the Regulations during the period. (3) If a member of the AC contravened the regulations, confirm that the members services were terminated (or in the process of being terminated, depending on the timing of the audit vis-à-vis the contravention of the regulations). (4) See documentary evidence that the County Treasury was informed of the intended termination and gave its concurrence.
172 – Meetings of the audit committee	(1) The audit committee shall meet at least once in every three months.	AC meetings are generally spread across the financial year to match the entity's financial statements timetable. While the number of meetings and their duration will vary depending on the range and complexity of the committee's responsibilities, it would be expected that the committee would meet at least four times in a financial year, together with a special meeting to consider the entity's financial statement. **Note:** the chair of the Audit Committee may also convene a special meeting of the Committee if there is a request (e.g. from the AO in order to consider issues which require urgent attention). The notice of meetings which require voting must specify clearly the issues and names of persons to be deliberated on. The notice

PFMAR Reference	Regulation	Procedures to ascertain Compliance with Regulations
		must also require that any member of the AC who has any interest in a matter to be considered to declare before deliberations and voting on such matter (**note**: the secretary of the AC is an ex officio and has no voting right).
	(2) Each member of the audit committee shall have one vote. (3) The audit committee shall make decisions by resolution. (4) In the event of a tie vote, the chair shall be entitled to cast a second vote.	(1) Review minutes of the AC meetings held during the period under review and confirm that the decisions of the AC were made by resolution. (2) For issues requiring voting, ensure that: (a) members with any interest in the matter due for deliberation appropriately declared their interest; (b) voting was properly carried out, with each member casting one vote; and c) any dissenting views were appropriately recorded.
	(5) A majority of the members of the audit committee that includes at least fifty percent plus one member shall constitute a quorum for the meetings of the committee.	(1) Review minutes of the AC meetings held during the period under review and confirm that the meetings were only held upon confirmation of a quorum of 50% plus one member. (2) AC members should make every effort to attend all meetings. If a member is absent from two consecutive regular meetings without leave of absence, he/she ceases to be a member. Confirm that this requirement is adhered to by inspecting the register of attendance.
	(6) The chair of the audit committee shall: (a) ensure that minutes are taken at each meeting and provided to the members of the committee before the next meeting; (b) have access to management, the head of internal audit and external auditors; (c) send or cause to be sent: (i) all notices of audit committee meetings at least fourteen days before the meeting; and (ii) All minutes of audit committee meetings.	***It is important that minutes of AC meetings are accurately captured to provide a reliable basis for follow-up actions. Therefore, the Secretary to the Audit Committee should prepare the minutes of the meetings, and maintain a permanent record of the minutes.*** Discuss with the chair of the AC and ascertain whether he/she has access to the head of internal audit, external auditors and management as and when required. Obtain details of all AC meetings held during the period under review and: (1) Confirm that notices of meetings were sent to the members at least 14 days before the date of the meetings. (2) Minutes of previous meetings were distributed to members.
	(7) If at any meeting of the audit committee the chair is not present, the members shall elect a chair for purposes of conducting that meeting.	Review minutes of the AC meetings held during the period under review and confirm that the meetings were appropriately chaired.
173 – Code of conduct	Any code of conduct of public officers shall also apply to members of the audit committee in relation to their functions, powers and duties as	***Audit committee members should be subjected to the Code of Conduct for Public Officers as issued by the Public Service Commission.***

<table>
<tr><th>PFMAR Reference</th><th>Regulation</th><th>Procedures to ascertain Compliance with Regulations</th></tr>
<tr><td rowspan="2">174 – Remuneration and compensation</td><td>(1) Members of the audit committee shall be paid an allowance on account of attendance of audit committee meetings as determined by County Treasury in consultation with other relevant entities.</td><td rowspan="2">Audit committees are generally remunerated and compensated for:
(a) Attending scheduled meetings, where the members are paid allowances based on approved rates;
(b) Traveling and accommodation expenses incurred while attending scheduled meetings; and
(c) Travelling and accommodation to attend to audit committee functions within or outside the country.
These compensations may be paid prior to, or after the functions to which they relate.

Obtain details of compensation to AC members during the period under review and:
(1) Confirm that allowances have been paid in accordance with the rates provided in the relevant circulars issued by the County Treasury.
(2) Confirm that the allowances are based on actual attendance of AC meetings by the members. Attendance of meetings should be verified from the attendance register maintained by the AC Secretary.
(3) Reimbursement for expenses incurred while attending to AC duties is based on appropriate supporting documents.
(4) Applicable taxes have been deducted in accordance with the tax regulations.</td></tr>
<tr><td>(2) A county government entity shall reimburse members of its audit committee for expenses incurred while attending to audit committee duties.</td></tr>
<tr><td>175 – Capacity building for Audit Committees</td><td>The accounting officer shall:
(a) provide capacity building to all public county government entity Audit Committees;
(b) provide policies and guidelines on audit committees;
(c) monitor the effectiveness of Audit Committees; and
(d) provide periodic updates of Audit Committee activities through the website.</td><td>(1) Establish that the AC has a formal process to induct new committee members that provides them with sufficient briefing and information to understand their responsibilities, and the expectations of the AO/Board about their role and performance.
(2) The information provided to new members should be tailored to meet their individual requirements and can include the following:
(a) An outline of the entity's governance framework and how the AC operates;
(b) The AC's charter and recent committee papers and minutes (including details of outstanding issues);
(c) Copies of the entity's enabling legislation (where applicable), selected policies, such as financial instructions and a copy of the entity's most recent financial statements;
(d) The entity's annual report, corporate plan, code of conduct, business and risk management plans;
(e) A briefing (supported by relevant documentation) on the entity's risk management framework, control, compliance, internal audit and external audit accountability arrangements, as well as details of current issues related to those topics; and
(f) The internal audit charter, the strategic and annual internal audit plans, the committee's forward meeting schedule, and recent internal audit and external audit plans and reports.
(3) Ascertain whether the AC members are provided with other relevant training to complement the initial induction (e.g. Corporate Governance course).
(4) Ascertain whether the AO periodically evaluates the performance of the AC and its members (this can be undertaken by an external consultant if deemed appropriate).</td></tr>
</table>

TEMPLATE FOR QUARTERLY REPORTING BY HEAD OF INTERNAL AUDIT

SUMMARY OF INTERNAL AUDIT FINDINGS AND RECOMMENDATIONS FOR THE QUARTER ENDED:_______

MINISTRY/DEPARTMENT/AGENCY: _____________________SCOPE: REVIEW OF IMPRESTS

Ref	Finding	Recommendation	Responsibility	Implementation timeline
1.				
2.				
3.				
4.				
5.				

Notes

(1) The above summary report should be completed by the Head of Internal Audit of the County Government entity as per Paragraph 166(1) of the Regulations.
(2) Complete the table as follows:
a) Indicate Audit finding reference
b) Summarise the findings
c) Summarise the recommendations
d) Indicate the Officer responsible for implementation of the recommendation.
e) Indicate the timeline by which the recommendation should be implemented.
(3) Please indicate in the transmittal letter:
a) the processes/units that were to be audited during the quarter as per the Annual Audit Plan;
b) the actual processes/units that were audited;
c) reasons for not auditing all the processes/units (where applicable), and the period during which they will be audited.
(4) The quarterly report should be submitted within 14 days of the end of the quarter to the Accounting Officer, the Audit Committee and the County Treasury.

TEMPLATE FOR QUARTERLY REPORTING BY ACCOUNTING OFFICER

QUARTERLY SUMMARY OF STATUS OF IMPLEMENTATION OF AUDIT RECOMMENDATIONS

MINISTRY/DEPARTMENT/AGENCY: ______________________________

QUARTER ENDED: ______________________________

Ref No	Process/Unit	Title	Recommendation	Implementation Status			Anticipated implementation date
				Implemented as stated	By alternative action	Not implemented	

Notes

(1) The above report should be completed by the entity's Accounting Officer. It is intended to provide a 'self-assessment' of the status of implementation of audit recommendations by the AO.

(2) The summary should capture the most recently issued internal audit reports, which should include a follow up of previous reports.

(3) Where a recommendation has not been implemented, the Accounting Officer should provide reasons for non-implementation (e.g. lack of resources, no longer applicable, etc.) and indicated the new anticipated implementation date.

(4) The quarterly report should be submitted within 14 days of the end of the quarter to the Audit Committee and the County Treasury.

(5) The County Government IASD will review the accuracy of the report when carrying out their regular audits.

GUIDELINE ON PREPARING A RISK-BASED ANNUAL WORK PLAN

IIA Performance Standard 2010 – Planning
The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

The IIA defines risk-based internal auditing (RBIA) as a methodology that links internal auditing to an organization's overall risk management framework. RBIA allows internal audit to provide assurance to the Accounting Officer/Board that risk management processes are managing risks effectively, in relation to the risk appetite.

In preparing the risk-based work plan, the Head of Internal Audit (HIA) should take into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework is not in place, the HIA should use his/her own judgment of risks after consideration of input from senior management and the board.

Development of risk-based audit work plans ensures that the allocation of internal audit resources for the audit of the entity's activities is proportional to the risk level attached to the individual activities. This, in turn, ensures that the audit department's priorities are objectively set and are consistent with the entity's strategic and operating objectives.

DEVELOPING AN ANNUAL RISK BASED WORK PLAN

Audit work plans and prioritization of engagements should be based on, among other factors, an assessment of significance of risk and exposure that impacts on the entity's operations, activities and programs. The following process should be used in developing the annual work plan.

(1) Where an entity has developed a Risk Management Framework, the Internal Auditor should be guided by the risk categorisation adopted therein.

However, if a framework does not exist, the Internal Auditor, in consultation with management, should carry out a risk assessment as follows:

a) The Internal Auditor should obtain an understanding of the strategic objectives and mandate of the Ministry/Department/Agency by reviewing key documents (i.e. strategic plan, including the functions, departments and ministries structure, financial estimates for both development and recurrent budgets and prior audit reports of both Auditor General (external) and CHIAS. A preliminary/desk review should be conducted to understand the audit areas, including outstanding issues from internal, external audit reports including those of County Assembly Public Accounts Committee (PAC).

b) Carry out a preliminary risk assessment. The purpose of the preliminary risk assessment is to determine the level of risk and adequacy of controls in the various functional processes of the Ministry/Department/Agency. The assessment should focus on the Ministry/Department/Agency profile, management structure, organizational changes, and specific concerns of management and the audit committee to determine the areas of greatest risk. The specific risks that could cause management not to meet the strategic and operational objectives should be identified, and controls established by management to mitigate these risks evaluated.

The results of the preliminary risk assessment should place the auditable processes/units (i.e. the audit universe) within a matrix based on high, medium and low risks.

(2) A three-year audit plan covering the audit universe should then be established, such that low-risk areas would be audited every three years, medium-risk areas audited every other year, and high-risk areas audited every year; **see example below – for illustration purposes only**:

Audit area/unit	Risk assessment	Audit frequency (1,2 or 3 year rotation)	2015	2016	2017
FINANCE					
Budgeting	Medium	2	✓		✓
Revenue/AIA	High	1	✓	✓	✓
Monthly Returns	Low	3			✓
ACCOUNTING & REPORTING					
Cash Book Management	High	1	✓	✓	✓
Bank reconciliations	Medium	2	✓		✓
HUMAN RESOURCE					
Recruitment	Low	3		✓	
Payroll Management	High	1	✓	✓	✓
ADMINISTRATION					
Transport	High	1	✓	✓	✓

The three-year audit plan should be revisited each year during the update phase of the risk assessment process and adjustments should be made based on new or changed risk factors. This methodology allows the Internal Auditor flexibility in a changing risk environment.

(3) An Annual Risk-Based Work Plan, based on the strategic and three-year audit plan, should be developed ahead of the financial year, to allow for allocation of resources and inclusion in the budget. The Annual Work Plan should summarise the IA department's activities planned for the year in terms of:

a) Operations and activities to be audited and the scope of audit work for each visit;
b) The timing of the audit visits; and
c) The estimated resources required for performing the planned reviews, i.e. number and level of staff and other resources.

(See example below)

Audit area	Responsibility	Person days	Quarter 1	Quarter 2	Quarter 3	Quarter 4
FINANCE/ACCOUNTS						
Bank accounts	Auditor 1	25				
Imprests	Auditor 2	20				
Payments	Auditor 1	40				
Revenue	Auditor 2	28				
ADMINISTRATION						
Transport	Auditor 2	20				
Procurement	Auditor 1	45				
Total person days		**178**				

(4) The HIA should discuss the Annual Plan with the Chief Executive and obtain his/her input. However, such consultations should not in any way lead to the loss of Internal Audit Department's independence to determine its scope of work.

(5) The audit plan should be submitted to the Audit Committee for approval by end of 2nd quarter of the entity's financial year. The approval should be formally recorded in the minutes and also indicate whether the scope of internal audit work has been reduced for any reason, e.g. because of insufficient resources.

(6) The approved plan should be shared with the Accounting Officer of the entity and agreed in sufficient time for inclusion in the budget of that entity.

GUIDELINE ON ENGAGEMENT PLANNING

IIA Performance Standard 2200 – Planning
Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

In planning the engagement, Internal Auditors must consider:

a) The objectives of the activity being reviewed and the means by which the activity controls its performance;
b) The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
c) The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model; and
d) The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

In planning the engagement, the Internal Auditor should:

(1) Perform a preliminary review to:

a) Establish the objectives and scope of the engagement. Audit objectives are broad statements that define the intended audit accomplishments, while audit procedures define the means to achieve the audit objectives. Taken together, objectives and procedures define the scope of the Internal Auditor's work.
b) Obtain background information about the activity to be audited. This can be achieved by reviewing relevant documents (e.g. policy and procedure manuals, budgets, results of other audits, authoritative and technical literature appropriate to the activity, etc.)
c) Determine staff requirements. The number and experience level of the internal auditing staff required should be based on an evaluation of the nature and complexity of the internal audit assignment, time constraints, and available resources.
d) Determine how, when, and to whom internal audit results will be communicated. The HIA should determine how, when and to whom the results and reports of internal audit work will be communicated and inform the auditee.

(2) Schedule an 'entry' meeting. Some of the matters the Internal Auditor should discuss with the auditee include:

a) Planned audit objectives and scope of work.
b) The timing of audit work.
c) Internal Auditors assigned to the audit.
d) The process of communicating throughout the audit, including the methods, time frames, and individuals who will be responsible.
e) Concerns or any requests of management.
f) Matters of particular interest or concern to the Internal Auditor.

A summary of matters discussed at meetings and any conclusions reached should be documented by the Internal Auditor and retained in the work papers.

(3) Carry out a survey where appropriate. The purpose of the survey is to;

a) Understand the activity under review.
b) Identify significant areas warranting special emphasis.
c) Obtain information for use in performing the Audit.
d) Determine whether further auditing is necessary.

A summary of results should be prepared at the conclusion of the survey and retained in the working Papers.

(4) Develop an Engagement Plan. The contents of the APM should be summarised under the following headings and filed in the current audit working papers file:

a) Internal audit scope and objectives.
b) Staffing and schedule summary.
c) Responsibilities and roles.
d) Key auditee contacts.
e) Summary analysis of current operating environment.
f) Management concerns and issues.
g) Reporting requirements and dates.
h) Planned areas of emphasis.

The APM should be filed in the current audit working papers file.

GUIDELINE ON DEVELOPING INTERNAL AUDIT PROGRAMMES

IIA Performance Standard 2240 – Engagement Work Programmes
Internal Auditors must develop and document work programmes that achieve the engagement objectives.

An audit work programme is a set of procedures that dictate how an evaluation, assessment, review or audit will be performed. Internal Audit work programmes must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

The purpose of the work programme is to:

(a) Serve as a set of instructions to the audit team.
(b) Assist with planning and performance of the audit.
(c) Provide a means to control and record the execution of the audit work, and also to review the audit work.
(d) Provide a record of the audit procedures to be adopted, the audit objectives, timing, sample size and basis of selection of each criterion.
(e) Provide audit evidence to support the auditor's opinion.

Programmes should be prepared before the commencement of internal audit work and modified, as appropriate, during the course of the project. The programmes should:

(a) State the objectives of the audit.
(b) State the nature and extent of testing required.
(c) Describe the scope and degree of testing required to achieve the audit objectives.
(d) Identify technical aspects, risks, processes and transactions that should be examined.
(e) Document the Internal Auditor's procedures for collecting, analysing, and documenting information during the audit.

GUIDELINE ON AUDIT REPORT WRITING

IIA Performance Standard 2400 – Communicating Results
Internal auditors must communicate results of engagements.

Paragraph 164(1) of the Regulations states that "findings and recommendations arising from each internal audit assignment should be promptly reported to the Accounting Officers". Paragraph 164(2) states that "the final report, including the actions taken by the accounting officer should be reported to the Audit Committee in a format to be gazetted by the Cabinet Secretary"

At the conclusion of each engagement, the Internal Auditor is expected to promptly communicate the results of that engagement in the form of an audit report. The report must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

A good quality report should be accurate, objective, clear, concise, constructive, complete and timely. It should also be structured in a manner that enables the reader to easily understand the issues.

The following structure is recommended for internal audit reports:

a. **Cover page/Top sheet**
Cover page summarises the pertinent details about the review including: name of unit reviewed; dates of review; report date; distribution (names of officers to whom report will be distributed); etc. The cover page should state the following:
(a) **Title** of the audit activity carried out, e.g. 'Audit report on value for money on level 5 health facilities in (Ministry/Department/Agencies).
(b) **Author** of the report; this should be the County Head of Internal Audit Services, the County Treasury.
(c) **Date;** this should include the month and the year, for example July, 2014.

b. **Table of Contents**
The table of contents should be generated from the main body of the report.

c. **Executive Summary**
This is a short summary containing the most significant information in the report and consolidates the overall results, key findings, recommendations and management's views (where applicable), in brief and concise paragraphs. The executive summary contains:

- **Background information** about the units and activities reviewed. The background should capture a brief description of the nature of the audit assignment, who commissioned the assignment, why the assignment. Where necessary, it should state the relevant parties who were involved in the coordination and facilitation of the exercise.

The objectives of the assignment should be as per the Terms of Reference (TORs).
The methodologies to be employed will be dictated by the terms of reference.

- **Overall objectives** and **scope** of the audit review, including whether the visit was a routine audit review, an unannounced visit. For special investigations, the objectives should be as per the Terms of Reference. The audit objectives should inform the reader why the audit was conducted and what it was expected to achieve.

The scope statement should identify the audited activities and include, where appropriate, supportive information such as audit period. Related activities not audited should be identified if necessary to delineate the boundaries of the audit. In scenarios where an auditor has not been fully facilitated, there should be a mention of limitation of scope (e.g. missing data, missing files, etc.).

- **Methodology**. The methodologies employed will be dictated by the terms of reference;
- The key **findings**, from the current review including a quantification of any losses / exposures identified;
- **Overall conclusions** on status of internal controls, the more significant control weaknesses noted, and recommendations made;
- **Status** of implementation of recommendations contained in previous internal and external audit reports.

Further Guidance on the Executive Summary

1) An executive summary should emphasise the Internal Auditors conclusions and recommendations, and include only the most significant information to support those conclusions.
2) Executive summaries are usually organized according to the sequence of information presented in the full report.
3) Write the executive summary after you have completed the report and decided on your recommendations.
4) It is good practice to go through the detailed report and find key words and use those words to organize the executive summary; this may be achieved through:
   (a) words that enumerate (first, next, finally);
   (b) words that express causation (therefore, consequently);
   (c) words that signal essentials (basically, central, leading, principal, major) and
   (d) words that contrast (however, similarly, more than, less likely).
5) Make the summary clear and to the point, but be sure to show why you have arrived at your conclusions.
6) Do not introduce any new information that is not in your report.
7) Executive summaries should communicate independently of the report and where necessary, make references to the main report.

d. Detailed Report

This section contains details of reportable issues (audit findings), recommendations and actions that management intends to take to implement the recommendations made.

Findings are pertinent statements of fact. Findings that are necessary to support or prevent misunderstanding of the Internal Auditor's conclusions and recommendations should be included in the final audit report. Less significant information or findings may be communicated orally or through informal correspondence.

The findings need to stipulate the associated risks, possible recommendations and highlight the following:

(a) Effectiveness of governance/oversight mechanisms;
(b) Financial Management (FM) challenges;
(c) Transparency & accountability issues; and
(d) Disallowable and wasteful expenditure and related integrity issues if any.

The Audit report should be positive and should reflect the auditee's accomplishments. For example, improvements since the last audit, the establishment of a well-controlled operation and examples of good practice may be included in the report. This information is necessary to fairly represent the existing conditions and to provide a proper perspective and appropriate balance to the report.

It is recommended that the detailed report contains the following headings:

a) ***Criteria***

- What should be; the standard or measure against which the evaluation is being made.

b) ***Condition*:**

- What is; actual status noted by the Internal Auditor during review; examples of exceptions to the established criteria, standards, practice, guidelines, laws and regulations, etc.

c) ***Cause***:

- Likely cause of the conditions / exceptions noted above.
- Identifying the cause ensures that the auditor seeks to understand the issue / problem fully, and assists in generating proactive and value-adding recommendations that mitigate future recurrence of the condition.

d) ***Risk / Effect***:

- Possible outcome (loss suffered / inefficient procedures etc.) due to previous existence, or continued existence, of condition.

e) ***Recommendation***:

- The action proposed to management in order to ensure the risk / effect is fully mitigated.
- The recommendations should be focused more on addressing the cause (rather than the existing condition), and mitigating the risk. However, where the existing condition is expected to have had a significant impact, the auditor should also recommend action to determine quantum of loss suffered and culpability.

f) ***Management Response:***

- Management's comments (if any) on the highlighted condition and confirmation of action to be taken.

g) ***Officer Responsible / Implementation Date***:

- Assigns the responsibility for implementing agreed actions to a specific individual.
- Indicates a proposed timeframe for implementation.

e. Conclusion and Acknowledgement

(a) Advise the Management of the need for change and the impact of risk(s) if corrective actions are not taken.
(b) Acknowledge/ appreciate the management for their assistance during the engagement.

f. Signing of the Report

The report should be signed by the Internal Auditor in-charge, for the CHIAS.
For special audit assignments, the team members involved should jointly sign the report to ensure ownership.

g. Annex / Appendix

This includes all material necessary to support the audit findings and conclusions reached in the audit report that would otherwise interrupt the flow of the report if included in the main body but would assist the reader, such as copies of documents, summaries or listings of audit results. These could either be internally generated e.g., working papers and schedules or external e.g. a copy of a payment voucher or photographs. The auditor should attach all the documentary evidence which supports his/her findings.

SPECIAL INVESTIGATIONS REPORTS

Generally, there are three types of reports that can arise from a special investigation:

1. Closure Report

These are reports that do not result in a recommendation for disciplinary, administrative or other action. A closure report will be issued in the following circumstances:

(i) Where the evidence obtained in the course of the completed investigation does not substantiate the allegations; or
(ii) Where, due to the circumstances, further investigation is not warranted hence the case will be closed.

The Internal Auditor will notify the complainant by letter that the investigation has been closed. The Internal Auditor will also inform the Board, Management and other stakeholders that the case has been closed. The closure report remains internal unless disclosure is authorised by the CHIAS.

2. Investigation Report

If the investigation reveals sufficient evidence to reasonably conclude that a breach has occurred, the Internal Auditor will prepare an investigation report setting out the allegations, the investigation methodology and the facts established in the investigation. Where the complaint involves more than one allegation, the investigation report will provide details of the investigative steps undertaken to corroborate each allegation, the evidence gathered as relevant to each allegation, and the finding relating to each allegation.

In addition, if the established breach is a potential violation of the law or appears to offer an adequate justification for a request for recovery of resources, the report may form the basis of a referral to law enforcement authorities. In cases where the investigation reveals credible evidence of a crime that appears appropriate for referral to law enforcement authorities, the Internal Auditor will prepare a summary of the evidence and a request for referral of the matter to the appropriate law enforcement authority.

Investigation reports contain confidential and sensitive information about individuals and entity operations and activities. Disclosure of such information may be detrimental to the entity's functioning and/or the welfare and safety of its staff or third parties and may also violate legal obligations. As such, investigation reports are considered strictly confidential and apart from Management Letters that are discussed below remain internal documents.

3. Management Letter

In some instances, internal audit may issue a Management Letter following an investigation, to convey to the responsible manager(s) issues arising from the investigation that require corrective action in order to strengthen internal controls and prevent similar incidents from happening. The management letter can also include observations outside the parameters of the investigation that require management attention. Internal Auditors should follow up on recommendations contained in the management letter until they are fully implemented, or are no longer actionable.

GUIDELINE ON MONITORING PROGRESS

IIA Performance Standard 2500 – Monitoring Progress
The Chief Audit Executive must establish and maintain a system to monitor the disposition of results communicated to management

Paragraph 164 of the PFMAR (County Govt) requires the Internal Auditor to report the findings and recommendations arising from each audit assignment to the Accounting Officer and Audit Committee. Paragraph 165(1) places the responsibility for implementation of the recommendations made in the reports on the Accounting Officer, and requires him/her to develop a response and action plan and submit the same to the Audit Committee.

Paragraph 165(2) requires the AC to follow up on the response and action plan prepared by the AO to ensure the recommendations are implemented. Clearly, the Internal Auditor plays a critical role in this process; therefore, he/she must establish and maintain a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The purpose of this guideline is to provide direction to Internal Auditors engaged in following up on recommendations and audit comments made in Internal Audit reports.

During follow-up, the Internal Auditor should determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings, including those made by external auditors and others. The Internal Auditor should take note of the date corrective action was taken, and description and evaluation of the corrective action. The auditor should also determine that the corrective action is achieving the desired results or that senior management and the board has assumed the risk of not taking corrective action on the findings.

The nature, extent and timing of follow up should be guided by the following factors:

(a) Significance of the reported finding or recommendation. The following approach could be adopted:
- ***Fundamental recommendations*** – follow up promptly after the agreed date for implementation;
- ***Significant recommendations*** – follow up review before the next scheduled audit visit; and,
- ***Advisable recommendations*** – follow up during the next scheduled audit visit

(b) Degree of effort and cost needed to correct the reported condition.
(c) Complexity of the corrective action.
(d) Time period involved.

The results of the follow-up should be reported to the same audience as the original recipients of the internal audit report; i.e. the AO and the AC. For each recommendation, the Internal Auditor should determine whether it has been:

(a) Implemented as recommended or by alternative action;
(b) Partially implemented;
(c) Not implemented; or,
(d) Superseded.

A summary of the status of implementation should be included in the Executive Summary of the report to provide a quick appreciation of the extent of implementation of audit recommendations (**see example below – for illustration purposes only**).

Audit report reference	Title	Total recommendations	Status of implementation of recommendations			
			Implemented	Partially implemented	Not implemented	Superseded
ID/001/2014	Review of imprests	30	18	4	6	2
		100%	**60%**	**13%**	**20%**	**7%**

The Internal Auditor should compare the results of the follow up with the quarterly *Summary of Status of implementation of Audit Recommendations* reports prepared by the entity's Accounting Officers, and report on any material discrepancies noted (the quarterly reporting by Accounting Officers serves as a proactive self-assessment by the AO of the extent of implementation of audit recommendations).

An overall opinion should be provided on the degree of satisfaction with the action that has been taken by management on the agreed recommendations. This opinion should be included in the report to the Accounting Officer and Audit Committee.

GUIDELINE ON AUDIT OF ANNUAL FINANCIAL STATEMENTS

Kenyan public sector reporting entities are required to prepare Financial Statements (FS) under the Public Audit Act and Public Finance Management Act, 2012. The County Treasury is required to ensure that the statements and summaries referred to in Section 163(2) of the Act are in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time.

Within three months after the end of each financial year, the AO for an entity should submit the entity's financial statements to the Auditor-General. The overall objective of auditing the Financial Statements is to provide users with assurance as to whether the FS are reliable, internal controls are effective, and are prepared in conformity with Generally Accepted Standards (GAS), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). The FS audit is also intended to obtain assurance about whether the FS are free from material misstatements.

As a general rule, the classification of financial transactions in a County Government entity's accounts should be based on the Standard “Chart of Accounts” approved by the National Treasury. The approved estimates of expenditure shall form the basis of the accounts for the financial year. Every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates (see Paragraph 99(1)(2) and (3) of the Regulations).

While the Office of the Auditor General (OAG) is responsible for audit of FS under Article 229(4) of the Constitution, it is good practice for Internal Auditors of public entities to review FS before being submitted to the Auditor General. PFMAR (County Govt) Paragraph 153(1)(c) also requires Internal Auditors to, among others, review the effectiveness of the financial and non-financial performance management systems of County Government entities.

Financial Statements Timelines

Within three months after the end of each financial year, the AO for an entity should submit the entity's financial statements to the Auditor-General and a copy of the statements to the Controller of Budget, and the Commission on Revenue Allocation. In the case of an entity that is a County corporation, the accounting officer should submit a copy of the county corporation's financial statements to the County Executive Committee member responsible for that corporation, who should approve and forward the statements to the County Executive Committee member for finance.

The PFM Act requires consolidated annual financial statements to be submitted to the Auditor-General within four months after the year-end. This timescale will be difficult to achieve unless the routine month-end procedures are completed systematically during the year; the Accounting Officer must, therefore, ensure that the necessary measures are in place to ensure that good quality reports are produced.

Accounting officers of the County Government and entities must therefore ensure that:

- Financial statements for County Treasury and County Government Entities are submitted within four and three months respectively after the financial year;
- The Financial statements are of the highest quality;
- The Financial statements are checked by the Audit Committee.

Below are the recommended minimum audit test procedures on FS audits:

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
LEDGER MANAGEMENT				
Ledger Accounts	(1) Establish whether data input to the IFMIS General Ledger (GL) is complete, accurate and reflected against the correct accounts codes. (2) To ensure that the general ledger and management accounts are accurate, reliable, and appropriately reflect the structure and operations of the County Treasury. (3) To ensure that relevant authorities are provided with timely, accurate and relevant information to support their decisions and actions. (4) To ensure that the accounting data is capable of meaningful and accurate analysis in order to support County Government decisions and actions.	1) Material misstatements. 2) Chart of accounts which doesn't reflect the structure and operations of the County Treasury	(1) Suitable Chart of Accounts approved by the County Treasury.	1) Establish that an up to date authorized chart of accounts or coding structure relevant to the user's requirements exists. 2) Periodically e.g. monthly obtain and review the GL. 3) Confirm whether all income and expenditure, including suspense accounts are correctly coded. 4) Test to confirm that the contents of the approved estimates are correctly captured in the general ledger. 5) Request for a copy of the chart of accounts to confirm that it exists and that it is in agreement with all the ledger accounts in use. 6) Review the process of updating the chart of accounts and confirm that all changes are approved by the County Treasury. 7) Confirm if there is a policy that has defined roles in respect of processing of transactions in the general ledger and only authorised personnel have access to the ledger. 8) Confirm, from discussions with the Accounting Officer and the Finance staff, that accounting duties are appropriately segregated to ensure adequate checks and balances. Review the adequacy of segregation of duties. 9) Select a sample of data input into the general ledger, review it for accuracy and authenticity and seek evidence that it is authorised.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
LEDGER MANAGEMENT				
				10) Confirm that there is a systematic system in place for accounting senior finance staff to keep themselves up to date with the changes in the accounting practices i.e. IFMIS. 11) Request for the current General Ledger processing timetable (as per PFM Guidelines) and confirm that it is being followed. Interview a few Finance staff and establish if they have a copy of the timetable and are aware of GL processing timeframes. 12) Review and check the mechanism in place if it is capable of detecting and correcting any material errors in either the accounts or the published financial statements.
			(2) Regular posting to the General Ledger.	1) Establish the frequency and completeness of transfer of actual payments /receipts to the general ledger.
				2) Trace actual payments and receipts in cash book to the general ledger and investigate any discrepancies.
Ledger Adjustments	To establish whether there was a need to make adjustments to the accounts in the GL	Irregular transfer of payments made under suspense accounts to the voted provisions by avoiding the AIE Holder.	Properly authorized adjustments	1) Confirm that all journal entries contained in the ledger were controlled in the Journal Entry (JE) register. 2) Sample JEs and test their validity and appropriateness. 3) Establish if they were applicable for any or all of the following: a) Capturing opening and closing journal entries. b) Adjustments rectifying genuine errors; c) Capturing expenditure financed through Donor funding -AIA. 1) Confirm whether they were properly authorized.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
APPROPRIATION ACCOUNTS				
Principal documents to the Receipts and Payments Statement	To establish whether final accounts are accurate, complete free of misstatements and have adequate disclosures;	Qualification of the Receipts and Payments Statement	Properly maintained Receipts and Payments Statement	1) Obtain the following documents for an effective review of the Receipts and Payments Statement • Recurrent & Development printed/supplementary estimates. • Recurrent & Development Receipts and Payments Statement duly signed by the Accounting Officer. • Recurrent & Development IFMIS Trial Balance (TB). • Recurrent & Development manual cashbooks. • Recurrent & Development exchequer issues control registers/files. 2) Verify and confirm if the TB is balancing and make observations on any identified discrepancies. 3) Confirm that accounts appearing in the Trial Balance tally with those appearing in the "chart of accounts." 4) Test to confirm that the submitted Receipts and Payments Statement conform to format approved by the Public Sector Accounting Standards Board. 5) Confirm the posting of the approved estimates to the Receipts and Payments Statement. 6) Confirm the posting of the actual expenditure in the TB to the Receipts and Payments Statement. 7) Verify the ledger TB totals of sub-items to the postings to Receipts and Payments Statement.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
Voted Budgetary Provisions	1) Establish whether the reported expenditure was approved by County Treasury. 2) To establish whether the accounting entity received the approved exchequer issues 3) To establish whether the appropriation account realized an excess AIA or incurred an excess vote/deficit on AIA	Incurring expenditure on items not approved by County Treasury	1) Approved net estimates 2) General Account of Vote 3) Ledger AIA account 4) System vote book and cash flow projections	1) Test to confirm that expenditure appearing in the appropriation accounts was charged to items approved by County Treasury. 2) Test whether there is expenditure provided for under Article 223 of the constitution and confirm whether it is allowable or disallowable. 3) Test to confirm that the budget estimates are prepared, accounted for and in accordance with budget classification and "chart of accounts" issued by the National Treasury.
Exchequer Issues	4) To establish whether there was a shortfall of AIA collections and reasons for the shortfall. 5) To establish material differences between the approved estimates and actual expenditure on each expenditure item.	Under or Over exchequer Issues		1) Verify all exchequer notifications and track their posting in the cash books. 2) Compute total exchequer received and compare with net estimates to determine over and under issues. Trace the over or under issues if any to the statements of assets and liabilities.
Summary to the receipt and payment statement	6) To establish the validity of the pending bills – evidence of delivery of goods/services not paid for and circumstances that led to pending bills to come into existence.	1) Surplus-Planned programs were not accomplished 2) Excess Vote- Incurring expenditure without County Treasury approval		1) Review the summary attached to the appropriation account to confirm the summarized amounts under the relevant sub-votes is representative of detailed amounts reflected under various expenditure heads/sub heads reflected in the receipt and payment statement.
Excess vote incurred while gross expenditure is less than gross estimates		3) County Treasury reprimand 4) Over/under expenditure on expenditure items that may escalate to the expenditure heads/subheads being overspent 5) Non achievement of subsequent years planned programme		1) Determine the surplus or excess vote by comparing actual gross expenditure captured in the GL against approved gross estimates. 2) Gross expenditure will comprise of the net expenditure and approved AIA excluding excess AIA. 3) Surplus to be surrendered to the exchequer later is realized when approved gross

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				estimates exceed the actual gross expenditure for a vote while an excess vote is incurred when actual gross expenditure for a vote exceeds the approved gross estimates. 4) Similarly excess AIAs, to be separately surrendered to the exchequer, are realized when actual collections surpass the approved estimates while AIA deficit is incurred when actual AIA collections are less than the approved estimates (under collections). 5) Trace the surplus, excess vote/AIA reflected in the summary to the appropriation to the statement of Assets and Liabilities. 6) If the client ministry/department seeks your advice on excess vote having been incurred while they had savings on the expenditure heads then review: i. Withdrawals from exchequer (Net Estimates); ii. Actual AIA realized and iii. Actual expenditure. 7) Example: Gross estimate 5,000,000 Less: AIA 1,000,000 Net Estimates 4,000,000 Actual Exp. 4,500,000 Actual AIA 300,000 The position will be as follows: Net Estimates 4,000,000 Actual AIA 300,000 Available cash 4,300,000 Actual Exp. 4,500,000 Excess vote 200,000 Note that an excess vote of KShs 200,000 is incurred though the actual expenditure of KShs 4,500,00 is less than the approved estimates of KShs 5,000,000 which will portray an impression that there is a saving of Kshs 500,000.00

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
Footnotes to the appropriation accounts (Receipts and Payments)				Review explanatory footnotes to the appropriation accounts that disclose item material differences between the estimates and actual expenditure e.g. KShs 1,000,000.00 and above to establish whether the explained variances are justified
Pending Bills				1) Obtain and review the pending bills to establish whether they are as a result of lack of budgetary provisions or exchequer issues. 2) Compare the total pending bills with the reported surplus to establish whether the bills would have led to an excess vote had they been factored in the appropriation account. The bills may have been excluded from the accounts to avoid an excess vote which requires parliamentary

STATEMENT OF FINANCIAL POSITION

Previous years and prior year balances	To establish that previous years and prior years balances are brought forward intact to the current statement	Misstatements/ Inaccuracies	Previous year's audited statement	Test to confirm that balances brought forward tally with those of the previous year's audited statement.
Closing balances (Suspense & Clearance Accounts)	To establish that closing balances take into consideration the correct changes during the reported accounting period	Distortion of the entity's financial position	Analyzed schedules attached to the statements	Review the suspense accounts balances reflected in the statement against the analyzed schedules noting long outstanding balances and reasons why they have not been cleared.
Closing cash balances	To establish that the statement discloses cash in hand and at bank separately		Regular bank reconciliations	1) Reconcile manual cashbook balance with cash balances reflected in the appropriation account and investigate any differences. 2) Review the bank reconciliation statement for the last month of the reported accounting period noting any suspicious outstanding reconciling items.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				3) Review the report on cash at the end of the accounting period by the Board of Survey on Cash noting comments made therein if any. 4) Reconcile the manual cash book balances with the cash account in the TB noting discrepancies if any.
Balances on Summary statement of provision	To establish whether there are long outstanding un surrendered surpluses or un cleared excess votes.	Holding cash that is due to the County Revenue Fund.	Approved Gross Expenditure Estimates.	1) Obtain explanations on why long outstanding surpluses/excess votes have not been cleared 2) Confirm whether the disclosed surplus in the summary to the appropriation account is factored in the statement. 3) Where Treasury has recovered an over issue or surplus from the entity's exchequer issues then confirm that the recovery has been properly treated in the books of accounts and adjusted in the statement accordingly. 4) Confirm that surplus recoveries are adjusted as follows: DR. Statement of Provision account with the surplus amount to remove the recovered balance. DR. Cash book with the net amount received as exchequer after recovery has been made. CR. The exchequer account with the full amount of the exchequer issued disregarding the
Extra exchequer receipts (Excess AIA)	To establish whether there are long outstanding balances representing un surrendered excess AIA.	Holding cash that is due to the County Revenue Fund (CRF)	Approved AIA Estimates.	1) Obtain explanations on why long outstanding excess AIAs have not been cleared. 2) Confirm whether the disclosed excess AIA in the summary to the receipts and Payment statement is factored in the statement. 3) Where Treasury has recovered an excess AIA from the entity's County Revenue Fund (CRF)

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				issues then confirm that the recovery has been properly treated in the books of accounts and adjusted in the statement accordingly. 4) Confirm that recoveries of excess AIA are adjusted as follows: DR. Excess AIA account with the amount of excess AIA to remove the recovered balance. DR. Cash book with the net amount received as exchequer after recovery has been made. CR. The exchequer account with the full amount of the County Revenue Fund (CRF) issued disregarding the recovered amount.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
CASH MANAGEMENT				
County Revenue Fund (CRF)	Ensure that funds due to government are timely received into the County Revenue Fund (CRF)	Cash flow/liquidity risk.	Timely remittances of Exchequer Receipts into the County Revenue Fund (CRF) Account.	Ascertain the Sources of revenue from the Printed Estimates.Confirm the totals realised from all the sources;
				Confirm your findings with the receipts at County Revenue Fund (CRF) Bank Accounts.
				Confirm revenue received was deposited into consolidated fund as soon as possible and not later than five (5) days after receipt thereof in line with Regulation 81 (2).
				Confirm that all deposits are recorded and a receipt issued by County Treasury to a receiver of revenue to acknowledge the receipt of revenue thereof.
		Delayed funding of government operation.	Independent reconciliation of amount collected and amount remitted into County Revenue Fund (CRF).	Ascertain whether reconciliation was made for the revenue received and remitted to the County Revenue fund.
				Establish whether the reconciliations were adequately reviewed by responsible officers.
	All withdrawals from the County Revenue Fund (CRF)comply with relevant legislations.	Policies and Procedure Risk-Inability to achieve government mandate and objectives.	Compliance with established policies procedures and legislation (PFM Act and Regulations).	Ascertain whether withdrawals are approved by the Controller of Budget and in accordance with any of the following: a) Appropriation Act by Parliament b) In accordance with Article 222 or 223 of the Constitution c) As a direct charge against the County Revenue Fund (CRF) authorised by the Article 207 of Constitution or an Act of Parliament and legislation of County Assembly.
	Proper recording and reporting of transactions related to the County Revenue Fund (CRF)	Misstatement of accounts and misrepresentation of the reports to users.	Effective and efficient Maintenance of books of accounts in accordance with standards and formats prescribed by public Sector Accounting Standards Board.	Track withdrawals to Treasury Single Accounts.
				Determine from the printed revenue estimates the amounts collectable from internal and external sources.
				Confirm the accuracy of the County Revenue Fund Account transactions.
				Confirm that cash book entries are supported by documents originating from the Collector and Receiver of Revenue and any external sources.
				Track and confirm if the final revenue accounts reflect the complete transaction of the Consolidated Revenue receipts.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Compare the actual revenue collection and determine the shortfall or excess.Confirm if the withdrawals are supported by approvals from the Controller of the Budget.Track and confirm if the final accounts reflect withdrawals from the County Revenue Fund (CRF)
	Ensure that the investments plans comply with relevant regulations.	Liquidity risk- cash overrun with use of cash for investment.	Proper, cash flow planning and management.	Ascertain the reasonableness of the investments by.(a) Evaluating the funds flow planning to ascertain if there were available surplus for investments; (b) Ascertain whether the withdrawal for investment was approved by the Controller of Budget; (c) Evaluate the investment to ascertain whether it complies with the regulations; and (d) Establish whether the returns are deposited to the national Exchequer Bank Account.
Management of imprests	To establish whether the facility is availed for official use and properly used / maintained.	Misuse of imprest facility.	Proper approvals and adherence to PFM regulations.	Confirm validity of the application and the personal details of the applicants.
				Confirm if the relevant approvals for issuance and "top-up" of imprests were granted.
				Determine the type of imprest issued and if it meets the criteria stipulated in Regulation 93 (1, 2, 11 & 18) of PFMA Regulations.
			Proper maintenance of imprest registers.	Establish the existence of an imprest register.
				Test and confirm that all imprests issued are recorded accurately.
				Ascertain whether imprests are issued to officers with no outstanding imprest as provided for in Regulation 93 (4b & 8).
				Ascertain that holders of imprest account or surrender imprest on the due date (within 7 working days after return to duty station) failure to which appropriate action is undertaken in line with Regulation 93 (6).
				Ensure the recovery of imprest from a public officer by installments is authorised by the accounting officer.Ascertain that any imprest

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				holder leaving services or is transferred surrenders total standing imprest i.e. cash and payment vouchers to his/her successor.
			Vote book	Test and confirm whether imprest warrants were procedurally processed and committed against available balances under relevant expenditure items.
	To establish whether there is proper accounting for imprests.	Misstatement of financial reports.	Systematic capture of payment vouchers accounting for imprest in the ledger.	Ascertain whether the imprest issued is captured in appropriate suspense account in the ledger.
				Check and confirm if the surrender payment voucher is properly accounted for by debiting relevant expenditure account and crediting the imprest suspense account.
				Check and confirm if the double entry is reflected correctly in the Cash Book.
		Non achievement of value for money.	Restricted use of standing imprest to low value purchases while having regard to appropriate quality and for intended purpose.	Confirm if there is an officer personally responsible of the imprest as provided for in Regulation 93 (12).
				Confirm if the imprest holder maintains a cashbook to record all transactions pertaining to the standing imprest.
				Establish the frequency of replenishment and test to confirm that the standing imprest is not used to circumvent the provisions of Public Procurement And Disposal Act, 2005 and Regulations, 2006.
				Ascertain whether imprest was used for intended purpose.
		Forgery, fraud and loss of funds.	Segregation of duties.	Establish if there is segregation of duties for officers involved in the processing of imprests.
			Issue of imprest for specific purposes.	Establish if the surrender voucher is properly authorised and processed. Ascertain validity of surrender documents.
				Ascertain whether imprest was used for intended purpose and any payments made from it, shall be only for the purposes specified in the imprest warrant.
				Confirm that Safari imprests are not used to procure goods contrary to Regulation 93(3).

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
			Spot checks	Ascertain frequent spot checks are made of the standing imprest itself by responsible officers as follows: a. Count the cash on hand; b. Confirm that the actual cash on hand corresponds with the balance on hand as recorded in the cash book; c. Confirm that all movements (expenses and receipts) since the last check have been properly recorded and are properly documented; d. Ensure that the documents justify the difference between the fixed imprest level and the actual cash balance; and e. Report on any anomalies found to the head of the accounts section.
Cash in hand and on transit	To establish whether recording of all cash transactions are complete and accurate.	Embezzlement and misappropriation of cash.	Proper recording and maintenance of the cash books.	Establish the existence of a cash book for the relevant account.
				Confirm that cashbook and cash analysis register entries and balances are complete and accurate in all respect.
				Check to confirm that financial records and documents are written in indelible ink.
				Check to confirm that no entry in a financial record or document is obliterated, erased or altered by being written over.
			Daily checks of cash transactions.	Verify the opening balances.
				Vouch all daily transactions.
				Confirm accuracy of closing balances;
				Confirm whether cash withdrawals and banking are appropriately and timely recorded. Confirm the basis and the correctness of contra entries.
				Investigate source of adjustments. Confirm that all cheques banked were receipted and recorded in the cash book.
				Confirm that all cash receipts have been issued with official receipts and documented in the cash book.
				Confirm that bankings are adequately controlled by ensuring bank paying-in slips are reconciled to cash receipts and to daily totals on the cash receipting system.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Carryout cash survey against the cashbook balances and compare with the cash analysis book.
			Treasury and accounting units rules on authorizing cash payments and withdrawals.	Establish if cash payments are made on a need basis and properly authorised by the relevant officer.
				Establish frequency of withdrawals and whether idle cash exists.
			Segregation of duties.	Confirm whether different officers perform the following functions. a. Recording the cash book; b. Checking the cash book; and c. Bank reconciliation.
	To ensure there cash at hand and cash in transit is adequately secured.	Loss of cash through theft.	Regular banking of cash receipts.	Confirm that bankings are adequately controlled by ensuring bank paying-in slips are reconciled to cash receipts and to daily totals on the cash receipting system.
				Test and confirm the bankings with the relevant bank statement
			Safe storage of cash.	Physically the cash office which should be a strong bulgur proof room and with grills.
				Physically verify the existence of cash boxes and safes.
				Confirm that access to cash office is restricted to authorised personnel only.
			Surprise cash counts are done at the cashiers' offices.	Confirm that the Head of Finance carries out surprise cash counts and makes a report on his findings.
				Confirm that any anomalies are reported and addressed.
			Staff handling cash transactions are rotated periodically and required to take their annual leaves.	Sample files of the cashiers and confirm that they took leave when they were supposed to.
				Confirm that the cashiers were rotated by examining the duty roster at cash office.
			Security for cash in transit.	Establish if there is appropriate arrangement for security of cash in transit as stipulated in Regulation 89 (b) (c) and (d). a. Police or armed security escorts; b. The security bags locked to the vehicle; and c. Suitable transport and variation of movement, times, and routes.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
Cash at Bank Management	To ensure that banking arrangements and facilities are appropriate and adequate.	Fraudulent Bank Accounts.	Proper opening and operating national government entities bank accounts.	Confirm that the all bank accounts for the entity were properly opened and in accordance with Section 119 (4) of the PFM Act and PFMA Regulation 119 (4).
				Confirm that no official government bank account is overdrawn, or shall any advance or loan be obtained from a bank account for official purposes beyond the limit, authorized by the National Treasury in line with Section 28 (4) of the Act.
	To establish whether recording of all bank transactions and balances are *bona fide*, complete, accurate and authorised whenever necessary;	Embezzlement and misappropriation of cash at bank.	Proper recording and maintenance of the cash books.	Establish if opening of bank accounts were duly authorised and opened in the name of the organisation.
				Establish the existence of a cash book for the relevant account.
				Confirm that cashbook entries and balances are complete and accurate in all respect.
				Check to confirm that financial records and documents are written in indelible ink.
				Check to confirm that no entry in a financial record or document is obliterated, erased or altered by being written over.
			Daily checks of bank transactions.	Verify the opening balances.
				Vouch all daily transactions.
				Confirm accuracy of closing balances and ascertain that there is no overdrawing of both cash books and bank accounts.
				Confirm whether cash withdrawals and bankings are appropriately and timely recorded.
				Confirm the basis and the correctness of contra entries.
				Investigate sources of adjustments.
				Confirm that bankings are adequately controlled by ensuring bank pay-in slips are reconciled to cash receipts and to daily totals on the cash receipting system.
			Bank reconciliations are done regularly; and at a minimum, they are done at the end of every month 'and submitted by 10th of following month National Treasury and copies to the Auditor General	Obtain Bank reconciliations for all months within the period of review and review the authenticity and accuracy of the reconciliation. (*refer to Bank Reconciliation Programme*)
			The review should include ensuring that the cash book balances tie with the General Ledger.	Confirm that they have been reviewed by responsible officers and signs as evidence S/he has done so.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
			The review should include ensuring that the cash book balances tie with the General Ledger.	From the selected sample of bank reconciliations, confirm that the cash book balances indicated were in agreement with the ledger balance.
			Segregation of duties.	Confirm whether different officers perform the following functions: a. recording the cash book; b. collection of bank statements; c. bank reconciliation statements; and d. checking of the cashbook.
	To ascertain whether there is proper security and management of cash at bank.	Loss of cash through theft and errors.	The banks are aware and hold specimen signatures of the persons authorised to operate bank accounts.	Confirm that the instructions for the persons authorised to operate the bank accounts have been communicated to the bank and the bank has acknowledged.
				Check to establish that the bank mandate (cheque signatories etc.) is up to date and those cheques are signed and instructions are issued by at least two signatories.
				Check to confirm that a Staff is removed from the mandate as soon as they leave the organisation.
			Cheques are not pre-signed under any circumstances.	Review the blank cheques held and confirm that none has been pre-signed.
				Select a sample of transactions in the bank account from the bank statements and establish that the transactions are in line with the purpose of the bank accounts.
				Seek evidence of Board approval if there is a transaction not in line with the purpose of the bank account.
			All cheques must be signed by two signatories and one of the signatories has to be a mandatory signatory.	Select a sample of payments and confirm from copies of the cheques that the authority levels were applied in signing of the cheques.
			The cheque signatories review supporting documents for validity of the transactions being paid before signing the cheques; the	Select a sample of payments and confirm that the cheque signers have initialled the supporting documents as evidence at the time of cheque signing.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
			signatories evidence their review by initialling the supporting documents or *any other alternative way of evidencing their review.*	
			The Organisation has an arrangement with the banks to call and confirm payment details for payments above agreed limit and Only the signatories can give confirmation for payments.	Confirm that banks have been given written instructions to call the entity and confirm details for payments above agreed amount and the instructions clearly state the officers who can confirm the payments.
				Seek evidence that the bank acknowledged receipt of such instructions.
			All blank cheques / cheque books should be kept under lock and key.	Check that blank cheques are securely kept by the Head of Finance under lock and key.
			The Head of Finance should maintain a register for controlling the issue and use of cheques.	Review the (blank) cheque register and confirm it is updated and that the accountant signs.
			Funds at bank are not transferred without proper authorisation	Confirm that banks have been given written instructions not to honour any payment not accompanied by a cheque, duly signed by authorised signatories and have acknowledged receipt of such instructions.
	To ensure that fund transfers and automated methods of effecting banking transactions are valid, in the best interests of the entity, and authorised;	Loss of funds in the bank by electronic means	EFT transactions should not be effected without authorisation.	Establish that all EFT transactions are properly authorised and Banks do not effect EFT transactions without confirming with one of the signatories.
				There is segregation of duties between initiation and authorisation of the EFT transactions.
			Transfer of funds from one bank account to another is done by giving written instructions to the transferring bank duly signed by relevant authorities.	Select, from the cashbook, a sample of transactions relating transfer of funds.
				Confirm that each transaction has written instructions signed by the relevant authorities.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
			The Electronic Payment transactions are adequately secured and password controlled.	Establish that there are written down procedures / roles regarding electronic payments.
				Establish that where electronic payment system is in use: a. payments are made direct into bank accounts; b. there is limited staff access to the system who have passwords that are frequently changed; and c. Printouts are checked and signed by cheque signatories.
Bank Reconciliation	To ascertain validity and authenticity of transactions in bank accounts.	Loss of funds.	Bank reconciliations are done regularly; and at a minimum, they are done at the end of every month and submitted to National Treasury and copies to the Auditor General by 10th of the following month.	Establish the existence of cash books. Establish the existence of cash books. Check the existence and completeness of all bank statements for the period under review. Verify bank statements page numbering, dates, balances brought forward and consistency of entries to establish that no page is left out. Check for use of duplicate bank statement and find out what might have happened to the originals. Confirm that the reconciliation statements were certified by the relevant persons. Test the accuracy and authenticity of the bank reconciliation statement against the supporting schedules and confirm the balances in the cashbook and bank statement. Investigate three preceding reconciliations to establish if the cleared items were done procedurally through the bank statements or the cashbook. Check for correction of errors by the bank and note the frequency. Check to confirm that the payments

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				in bank statements were recorded in the cashbooks.
				Identify bank charges and seek explanations.
				Where electronic payment system is in use, establish the nature of payments in cashbook not in bank statements (un-presented cheques) and seek explanations.
				Where cheque system is in use establish the validity of the un-presented cheques.
				Verify all replacement cheques to confirm if they were made to the original payees.
				Check for any RD cheques and verify treatment in the cashbook.
				Confirm the nature of receipts in cashbook not in bank statement.
				Ascertain reasons why receipts in bank statements are not receipted and recorded in cashbook.
				Verify all withdrawals of cash for office use with a view of establishing that the cash was recorded in Cash book and that the accountant initialled the contra entries in the cash books.
				Check for withdrawals which match/equal banking whether block or split (verify both the source of banking and the reasons for withdrawal.
				Confirm if stale cheques are procedurally lapsed to the stale cheques suspense account and not irregularly used to clear other outstanding reconciliation items.
	To ensure that banking charges are effectively monitored and minimised.	Loss of funds.	All bank charges are monitored and, where necessary, queried in writing	Enquire how bank charges are monitored and whether there are written queries regarding the same to banks.
				Select a sample of bank charges and check whether they were properly recorded in the bank statements as par the bank agreements.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Confirm that the bank charges have been recorded properly in the books of accounts.
	To ensure that the potential for staff malpractice and fraud are minimised.	Concealment of fraud.	Segregation of duties	Confirm whether different officers perform the following functions: a. Recording the cash book; b. Collection of bank statements; c. Bank reconciliation statements; and d. Authorising bank reconciliation statements.
			Reconciliation anomalies promptly identified, investigated and resolved.	Ensure any discrepancies noted during bank reconciliation exercise, are investigated immediately and appropriate action taken including updating the relevant cash books.
Deposit Accounts	To ascertain accurate recording, safe custody and payment to the rightful beneficiaries.	Loss of cash through Misappropriation and fraud.	Separate bank accounts.	Establish the existence of authority from relevant Treasury to open deposit bank account.
				Establish whether deposit account is used for funding expenditure for voted provisions (borrowing or interbank transfers).
				Confirm if treatment of unclaimed deposits is in line with Regulation 106.
			Proper maintenance of deposit ledgers.	Establish whether deposit ledgers are maintained. Ascertain that an official receipt is issued and recorded in the deposit ledger for every deposit made.
				Confirm that entries in the deposit ledger are supported by receipts captured in the cash book.
				Verify any overdrawing of the cash book (overdrawing not allowed).
			Proper authority of deposits.	Confirm if there was a genuine application for the claim on the deposit account.
				Test and confirm if the deposit is paid to the right payee and if the purpose for which the deposit was made had been fulfilled.
				Ascertain if the deposit Voucher was properly authorised and processed.
			Reconciliation of deposit accounts.	Review the bank reconciliation for the deposit account as per bank reconciliation program.
				Reconcile the ledger balances against the cash book balances.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
MANAGEMENT OF REVENUE AND OTHER RECEIPTS				
Revenue/ AIA Management	To establish whether there is Proper collection, accounting and safe custody of revenue/AIA.	Loss of cash through theft, Embezzlement and misappropriation.	Authority to collect and account for revenue.	Identify the types of revenue collectable by an entity.
				Identify types of accountable documents used for collection of revenue.
				Establish existence of proper authority to collect revenue.
				For any refunds, check to confirm that proper authority was issued.
			Regulated collection, custody and issue of accountable documents.	Verify to establish that form S12 is duly issued and approved to collect receipt books from Government Printer.
				Verify & establish entry of receipt of books and other accountable documents from Govt. Press in the CRB register using issue notes from Government Printers.
				Verify & confirm that appropriate authority was used to issue accountable documents to users.
				Verify to confirm that issues are made to an individual person by name who should personally acknowledge receipt of accountable documents.
				Establish the safe custody of used, partly used and unused accountable documents.
			Timely Banking.	Ascertain that no collections are used at source but banked intact.
				Confirm the bank pay-in-slips are reflected in the bank statement.
				Determine the period between receipts and banking with a view to confirm there were no delays.
				Reconcile actual collection as per Collection Control Sheet (CCS) with the cash surrenders or banking as appropriate.
			Receipting of all revenue and Proper maintenance of records;	Verify to establish that all issues are recorded in the Collection Control Sheets.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Ascertain if all receipt books in use were officially issued from the CRB register.
				Compare records of collections in the CCS and cash book.Where receipts are not of fixed amounts crosscheck with the originating authority (files).
				Confirm receipts of remittances at the final destination.
				Confirm segregation of duties by establishing that the officer who approves collection of books from Government Printers does not collect, and the officer who collects the books does not maintain CRB.
EXPENDITURE MANAGEMENT				
Budgetary Control	To ascertain whether AIEs are properly authorized and issued as per budgetary provision.	Excess vote/ over expenditure.	Printed estimates and Vote Book system.	Establish whether AIEs are issued on the basis of vote on account and/or treasury warrant received.
				Confirm that items in AIEs are same as those in the printed estimates.
				Establish whether AIE holders were appointed by the Accounting Officer in writing in line with Regulation 24.
				Establish whether AIEs were authorised by Chief Finance Officer.
				Establish whether AIEs are captured in the vote book system and properly processed.
	To ascertain whether correct amounts are disbursed for the respective AIEs.	Loss of funds.	Control Account	Establish whether payment vouchers were raised for the AIE disbursements.
				Verify to confirm that the Payment Vouchers have been charged to the respective Control Account
				Confirm that the total amount on the voucher tally's with the totals of the AIEs.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
			Segregation of duties.	Establish that the following duties are not performed by the same officer; a. Voucher preparation; b. Authorization; and c. Cash remittance.
	Re-Vote of Budget	Over spending / unnecessary spending in the last financial quarter.	Unutilised budgetary resources should be surrendered back to the County Revenue Fund	Ascertain whether funds allocated to particular projects in a given financial year were fully utilised.
				Where it is not possible to utilise all funds allocated for a particular project in a given financial year, establish whether the AIE holder informs the accounting officer not later than February in line with Regulation 116 (1).
				Ascertain that unutilised budgetary resources are surrendered back to the County Treasury line with Regulation 116 (2).
Expenditure Control	To confirm whether there are controls in place in relation to payments.	Loss of funds due to lack of controls	Adherence to guidelines and procedure manuals relating to payments.	Ascertain existence of procedure manual and other relevant materials.
				Ascertain that all payments are done through the entity's cheques except the petty cash.
				Ascertain that payments are made only on activities/projects approved and in line with the annual budget;
				Ascertain that payments are only made on account of properly authorized transactions for which all the supporting documentation have been prepared.
				Ascertain that all payments are posted in the cashbook on the same day.
	To confirm proper utilization of the budget.	Misappropriation of the appropriated funds.	Adherence to rules and regulations.	Ensure expenditure for goods and services is controlled against approved spending and procurement plans based on allocations and allotments of approved budgets in line with Regulation 50.
				Ensure that the approved budgetary provisions are effectively controlled through efficient utilization.
				Ensure the complete eradication of the practice of cash procurement, which is a violation of the PFMA and Public Procurement and Disposal Act.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Ensure that impressts are strictly used for the intended purpose and valid receipts used to account for it.
	To ensure budgeted expenditure is used for the earmarked activities.	Use of budgetary resources for activities that were not earmarked for in the budget.	Expenditure should be in line with the budget.	Review the budget expenditure vis-à-vis the actual expenditure.
				Ensure that an Accounting Officer of an entity does not authorize payment to be made out of funds earmarked for specific activities for purposes other than those activities in line with Regulation 53(1).
	To ensure that all payments are eligible and are properly authorised before cheques are issued.	Loss of funds.	Proper authorisation of payments by responsible officers.	Ensure that the heads of department certify all the invoices submitted for payment.
				Where appropriate, a copy of the minutes or other authorization for the expenditure is attached.
				Ensure that all payments for capital expenditure are examined to ascertain the amount involved, relate it with previous payments to ascertain the contract amount is not exceeded and the approved budget.
				Ensure that imprest is not issued to officers holding another un-surrendered amount.Ensure imprest is surrendered within the stipulated time.
			Proper record keeping and attachment of all supporting documents to payment vouchers.	Ensure that all payment vouchers have all certificates at the back of the voucher completed.
				Ensure that all payment vouchers are adequately supported.
				Ensure that there is effective record-keeping and ultimate accounting.
				Ensure that the invoices are accompanied with a copy of local purchase order/local service order or a copy of a contract and certificate of work done.
			Strict adherence to procurement rules and regulations.	Strict adherence to procurement rules and regulations.
				Ensure proper method of procuring good and services is applied to avoid frequent requisition for cash to make payments e.g. to fuel vehicles.
				Ensure that there is strict observance of procurement procedure i.e. Public Procurement & Disposal Act and circulars thereto;

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Ensure that purchases through cash imprests are within the limits set by the Public Procurement & Disposal Act.
	To establish that goods paid were actually received.	Payment for goods not delivered.	Enforcements of controls and proper supervision.	Ascertain that all payments were adequately authenticated and authorised by responsible officers. Ascertain that the entity pays only for goods delivered and services that have been rendered.
				Review adherence to Public Procurement & Disposal Act and circulars thereto.
				Check that assets being paid for are delivered and are in safe custody of the entity – confirm this from fixed asset register.
				Ascertain that all payments are supported by a payment voucher and other supporting documents e.g. GRNs etc.
	To establish whether all expenditure is regular, accurately recorded and reported.	Loss of funds.	Work plans and necessary approvals	Confirm existence of approved departmental work plans.
				Confirm whether expenditure is relevant to the activities of respective work plans.
				Confirm whether expenditure was initiated by user departments.
				Establish whether necessary approvals (e.g. Accounting officers, AIE holders and tender committee) were obtained before incurring expenditure.
			Efficient and effective accounting processes.	Ascertain expenditure system in use and establish its effectiveness. Establish whether there are regular checks of financial records by responsible officers. Test accuracy of reports by comparing expenditure returns and the cash book payments.
		Inaccurate expenditure report.	Public finance regulations and Treasury circulars.	Establish if payments were on the basis of appropriate authority.Establish if payments were authentic.Confirm use of relevant documents by the examination section.Confirm if the expenditure passed through the correct vote control process.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Test to establish if commitments were made against authorised documents.
				Establish if all the necessary certifications were appended.
				Ascertain validity of supporting documents.
				Ascertain if payment was of the right amount and to the right payee.
				Establish if expenditure has been charged to the correct item and complies with relevant policy, regulations and legislation.
				Interrogate the payment system for evidence of double payments.
			Segregation of duties	Establish whether different stages of voucher processing are performed by different officers.
Value for money	To ascertain the economic use of budgetary resources.	Uneconomical use of budgetary resources.	All purchases shall comply with the provisions prescribed in the Public Procurement and Disposals Act 2005 and Regulations 2006 and other relevant legislation.	Sample payments and test compliance with the Procurement Act and Regulations (Refer to the Procurement Programme).
				Ascertain whether services/goods were procured using the most economical means i.e. minimising costs of resources used having regard to appropriate quality.
				Obtain other corroborative evidence beyond the entities books and records.
	To ascertain utilization of the applied budgetary resources towards achievement of desired outcome.	Failure to fully utilize budgetary resources for the desired outcome.	Resources used should be directly geared towards the expected output of the activity/programme.	Determine whether expenditure is geared towards achievement of programme / entity's objective.
	To ascertain the degree of achievement of programme objectives and delivery of value for money.	Failure to achieve programme objectives and intended impact.	The objectives of an activity/programme should be achieved and the intended impact realised.	Obtain the objectives of the activity and the intended impact;
				Evaluate the extent to which the objectives of the activity are achieved;
				Evaluate the extent to which actual impacts of the activity deviate from the intended impact.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
ACCOUNTING AND REPORTING				
Ledger Management	(1) Establish whether data input to the general ledger is complete and accurate. (2) To ensure that the accounting records are maintained in accordance with accepted accounting principles and professional good practice, and comply with the PFM Act and regulations. (3) To ensure that the accounting records and information can be used to generate the statutory financial statements.	(1) Material misstatement. (2) Risk of non-compliance with Public Sector Accounting Standards Board, PFM Act and regulations. (3) Failure to produce timely financial reports as required by the regulations.	Suitable Chart of Accounts approved by the National Treasury.	Establish that an up to date authorised chart of accounts or coding structure relevant to the user's requirements exists.
				Confirm whether all income and expenditure are correctly coded.
				Confirm that accounts appearing in the trial Balance tally with those appearing in the chart of accounts.
				Trace actual payments and receipts in cash book to the general ledger and investigate any discrepancies.
				Check for the procedures in place used to Confirm the accuracy of data input from other systems.
				Check for the procedures in place used to confirm the accuracy of accounting data output to other systems.
				Review and check the mechanism in place if it is capable of detecting and correcting any material errors in either the accounts or the published financial statements.
			Control Account (Pay Master General).	Reconcile manual cash book balance with cash balances reflected in the general ledger/Trial Balance.
				Investigate any differences.
			Regular posting to the General Ledger.	Establish the frequency and completeness of transfer of actual payment /receipts to the general ledger.
			Properly authorised adjustments.	Confirm that all journal entries contained in the ledger were controlled in the register.
				Sample JEs and tests their validity and appropriateness;
				Establish if they were applicable for any or all of the following: (i) Capturing opening and closing journal entries (ii) Adjustments rectifying genuine errors; (iii) Capturing expenditure financed through Donor AIA.
				Confirm whether they were properly authorised.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Confirm that entries in the accounts are supported by approved vouchers containing full details, clear narrations and particulars of the item or items to which it relates.
			Proper capture of Approved Estimates and expenditure in the ledger	Test to confirm that the contents of the approved estimates are correctly captured in the general ledger.
				Establish the total payments (actual payments) from the system.
				Compare the amount with the gross expenditure reflected in the general ledger.
				Investigate the difference if any.
				Verify and confirm if the TB is balancing
			Segregation of duties	Check to confirm that the same person is not responsible for processing/controlling every step in a system as follows: (i) The daily processing of transactions (invoicing, validation, posting to GL; (ii) The clearance of suspense
			Reconciliation and adjustment of below the line accounts.	Ascertain all the suspense accounts maintained by the entity;
				Compare the postings of suspense accounts with the source documents;
				Confirm whether the suspense accounts are regularly scrutinized and reconciled;
				Investigate the cause of non-clearance of suspense account balances
				Check to confirm whether deposit accounts have credit or zero balances and where debit balances exist, investigate.
			Suitable computer access controls.	Check whether access protocol is limited to distinct functions.
				Confirm that individual passwords and user profiles are used to control access to information on the ledger.

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Review the IT security policy and confirm when it was last updated.
				Confirm if Information Technology security responsibilities are clearly defined and made known to staff and interview a few users to establish they are aware of their responsibilities.
				Check if newly appointed staff are made aware of their responsibilities during induction.
				Obtain the log of physical access and security breaches and if there were any breaches establish if management was notified and appropriate action was taken.
				Observation and conversations with staff should indicate whether physical security is regarded as important.
				Responsibility for Information Processing Facilities security can also be evidenced in the job descriptions and/or notices and circulars to staff.
				Identify where responsibility for physical security lies within the Treasury and how the different approaches to security are coordinated.
				Visit the computer room and record details of all entry/exit points.
				Ascertain details of what methods are in place to restrict access and obtain a list of persons who have access to the equipment.
Reporting	To establish whether final accounts are accurate, complete and with adequate disclosure.	Qualification of accounts.	Properly maintained books of account.	Establish the existence of the cash book, ledger, and trial balance; Test to confirm if right accounts are charged for payments;Verify all exchequer notification and track their treatment in the cash book; Compute total exchequer received and compare with net estimates to determine over and under issues. Trace the over and under issues to the statements of assets and liabilities;

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				Where an over expenditure is reflected in the appropriation account, seek explanation.
				But where there is material under expenditure similarly seek explanation.
				Confirm the posting of the approved estimates to the appropriation accounts;
				Verify the ledger totals of sub-items to the postings to appropriations accounts;
				Establish the General Account on Vote (GAV) as reported in the statement by comparing the ledger gross expenditure against approved gross estimates;
				Identify suspense items to confirm if they are supported by proper analysis;
				Investigate the cause of non-clearance of suspense account balances.
				Establish the excess AIA reported in the statement by comparing the actual collection as per the ledger against approved AIA in the estimates.
				Ascertain the amount of pending bills and ascertain their impact on the subsequent budgetary provision.
	To establish whether the account have been prepared in conformity with the Act, Regulations and Treasury Circulars.	Non-compliance.	Public Finance Regulations and Treasury circulars.	Confirm that accounts have been recorded and reported in line with requirements of Public Finance Regulations and circulars.
BUDGETING				
Budget Planning	(1) Establish whether appropriate budgets are prepared that are consistent with the entity's strategic plan and financial forecast	(1a) Inadequate achievement of entity's objectives due to budget inconsistency with strategic plans.	(1a) Carrying out a participatory budget process with reference to the entity's strategic plan;	(1a) Ascertain the existence of the entity's strategic plan and establish activities in the strategic plan; (1b) establish whether budgets are linked to entity's objectives and targets outlined in the strategic plan; (1c) establish whether budgets are based on the resources needed

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				to achieve the operational plan rather than historic budget figures;(1d) ascertain whether budget setting is integrated with government's 3 year MTEF planning process and budget cycle; (1e) establish that a suitable timetable for budgets setting has been developed, which is integrated with government's overall budget formulation process, and has been communicated to all senior management involved in budget formulation; (1f) establish whether plans from individual budget holders are supported by an objective analysis of costs, and expenditure items category. (1h) establish that budgets for expected income have an objectively based and are consistent with actual income generated in previous years; (1i) confirm that all managers who are going to control the budgets are involved in their development and agree with the final budget or are at least provided with an adequate information explanation for the level of budget that is finally agreed; (1j) establish that budget document provides information at the appropriate level of detail to inform stakeholders of the organisation's activities; (1k) establish whether where possible, public feedback is taken into account in budget formulation through sector hearings and public participation; (1l) Test accuracy and correctness of budget totals of items and sub-items;

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
Budget Control	(2) Establish whether a suitable budgetary control framework has been developed	(2) un planned expenditure leading to wastage and excess vote	1. Appropriate authority for execution of budget activities	(1a) Confirm existence of appropriate authority for budget execution (Appropriation Act/Vote on Account Treasury Warrant, Authority to Incur Expenditure)
			(2)Budget implementation committee;	2a) Confirm the existence and effectiveness of a Budget Implementation Committee
				(2b) Establish whether budgets are reviewed periodically to ensure that they are adequately controlled
				(2c) Establish whether accounting officers receive details of actual income and expenditure compared to a suitable profile of the annual budget on periodical basis within 10 days of the end of period;
				(2d) Establish whether budgets are devolved to managers who actually control the expenditure
				(2e) Establish if there is supervision and coordination of budget holders, promoting efficient use of resources.
	(3) To ascertain whether budgetary process is carried out in accordance with the PFM Act and Regulations;	(3) Non- compliance with policies and procedures.	(3)Legislations, Regulations and Treasury instructions	(3a)Test for compliance with treasury instructions, regulations and legislation.
				(3b)Establish that there are regulations to ensure that budget implementers are only held financially responsible for costs of activities they can actually control.
				(3c)Test check on the budget preparation timetable to confirm that the MTEF budget cycle was fully adhered to.
Budget Reallocation	4)To establish that there was a need for the reallocation.	4)Incomplete implementation of projects and programs	(4)Budget Implementation Committee;	(4a) establish the existence and effectiveness of the budget implementation committee;(4b) establish if there was need for reallocation, confirm the same with minutes of Budget Implementation Committee;(4c) establish whether

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				the budget implementers of the heads from which reallocations were made were consulted and consented;(4d) establish the existence of the budget reallocation register;(4e) establish if the reallocation report was prepared and submitted to the Treasury.
	5)To establish if the reallocation was in accordance with the Constitution, the Act, and Regulations.	5) Non-compliance with Legislation.	(5) The Constitution, the PFM Act and Regulations.	(5a)Ascertain whether the reallocation complies with Section Section 43 (1), (2), (3) of the Act and the provisions of the regulations to establish that; (I) The reallocations do not affect the total voted provisions (ii) The provisions in the budget of the program or sub-vote from which the reallocation is made does not exceed 10%
Reorganisation and Transfer of Function.	(6)To establish whether there was policy change leading to creation of additional entity under a new vote;	(1a) Duplication of functions.	(1a)Legislations and Presidential Circulars.	(6a) Establish whether Legislations or Presidential Circulars exists reorganizing certain functions. (6b)Establish whether certain functions or services of an existing entity were transferred to another entity. (6c) Establish whether the transfer of funds was done in accordance with the Public Finance Regulations.
	(7)To establish whether there was proper and accurate reporting of financial transactions of votes affected by the restructuring.	(7a)Misstatement of reports	(7a)Government Financial Regulations and Procedures	(7a)Establish whether the inter-vote adjustments are in line with GFR 2004 are superseded by PFMR 2015
		(7b)Pending bills and non-clearance of suspense account e.g. imprest	(7b)Approval by County Assembly of supplementary estimates	(7b)Confirm that transfer of services were regularised through supplementary estimates
Supplementary Estimates	8)To establish if the necessary processes were followed and approvals were obtained	1) Non achievement of the objective for which the supplementary allocation was intended.	1) Integration of planning and budgeting	1a) Determine whether there was justification for supplementary budget. 1b) Check to confirm whether the expenditure was initially budgeted for. 1c)For inadequately funded activities, ascertain the actual expenditure and the outstanding liabilities or commitments against the item on the date when the application was made;

SUB AREA	OBJECTIVE	RISK	CONTROL	TEST PROCEDURE
				1d) For unforeseen activities not factored in the budget, ascertain the basis for the calculation underpinning the supplementary 1e) Determine if there was any deviation from the MTFF and the financial objectives
		2)Non-compliance with the PFMA section 135 regulations.	2) PFMA and the relevant regulations.	2) PFMA and the relevant regulations. 2a) Confirm if a memorandum for additional funds request was submitted to the National or County Treasury 2b) Ascertain whether approvals were received from the Cabinet Secretary or the County Executive Committee Member 2c) Establish If the expenditure could not be met by virement from savings within the Vote. 2d) Confirm whether an application together with supporting documents (supplementary certificates and memorandum) were submitted to parliament or respective county assembly 1j) Confirm whether approvals were received from Parliament/ County Assembly

INTERNAL AUDIT QUALITY CONTROL POLICY

1. INTRODUCTION

1.1 The PFMA stipulates, in Section 155 (1) (a) & (b), that 'a County Government Entity shall ensure that it has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board, and in compliance with any regulations that are in force. Sub-clause 155 (b) (2), 155 (4) further stipulates that 'a County Government entity shall ensure that internal audits in respect of the entity are conducted in accordance with international best practices'.

1.2 The PFMA Regulations stipulate, in Paragraph 154, states that Internal Auditors shall comply with the International Professional Practices Framework (IPPF) as issued by the Institute of Internal Auditors from time to time.

1.3 The IPPF comprises six categories of guidance, namely:
- Core principles
- Definition
- Code of Ethics
- Standards
- Implementation Guidance
- Supplemental Guidance

The first four categories are mandatory and must be applied in all aspects of internal auditing. The *Standards* are the criteria by which the operations of an Internal Audit department are evaluated and measured, and apply to all types of organizations where Internal Auditors are found.

2. POLICY STATEMENT

2.1 As part of the ongoing departmental quality assessment and improvement programme, a need has been identified for a more effective and customized quality control policy to guide the department in its pursuit of delivering value to its stakeholders.

2.2 The requirements with regard to quality control are contained in the IPPF which stipulate, in Attribute Standard 1300 – Quality Assurance and Improvement Programme, that "the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity".

2.3 The Standards further state that "a quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the definition of Internal Auditing and the Standards and an evaluation of whether Internal Auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement" (IPPF 1300).

> The IPPF defines Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

2.4 Further and in accordance with the IPPF, every internal audit activity should undergo an ***annual self-assessment*** and an ***external quality assessment*** conducted by **a qualified, independent assessor or assessment team** ***at least once every five years*** to conform to the Standards. The five-year period starts when an internal audit activity formally adopts the *Standards*.

2.5 The broad objectives of performing a Quality Assessment of the Internal Audit Function will be to:
   i) Assess the effectiveness of the Internal Audit Function in providing assurance and consulting services to the entity's Accounting Officer, board, senior management, or other interested parties.
   ii) To assess conformance to the *Standards* and provide an opinion as to whether the internal auditing activity generally conforms to all of them.
   iii) To identify opportunities, offer recommendations for improvement, and provide counsel to the HIA and staff for improving their performance and services and promoting the image and credibility of the Internal Audit Function.

2.6 The Quality Assessment (annual self-assessments or periodic independent quality assurance reviews) should be performed using various tools, including questionnaires, surveys, interviews with staff, etc. The tools should incorporate the requirements of the *Standards* and relevant guidance from the Practice Advisories.

2.7 The Quality Assessment should focus on evaluating:

- Conformance with the Internal Audit Charter, the IIA Definition of Internal Auditing, the Code of Ethics and the *Standards*;
- The quality of the audit work, including adherence to the internal audit methodology;
- The quality of supervision;
- The infrastructure, including the policies and procedures, supporting the internal audit activity;
- The ways in which the internal audit activity adds value to the organisation; and,
- The achievement of performance standards / indicators.

2.8 Internal Quality Assessments should be conducted by staff who were not involved in the respective audits which are the subject of the review.

2.9 The periodic external quality assessment should be conducted by a qualified independent assessor or assessment team that is certified by the Institute of Internal Auditors to undertake such reviews.

2.10 The results of the Annual Self-Assessment and the periodic Independent Quality Assurance review should be forwarded to the relevant Entity's Audit Committee and a copy sent to the Internal Auditor General, National Treasury. Both the Entity's HIA and the Audit Committee should flag any required follow-up action, by the Entity or the Internal Auditor General, in relation to Quality Assessment result.

3. ROLE OF HEAD OF INTERNAL AUDIT UNIT IN ENSURING AN EFFECTIVE QUALITY CONTROL PROGRAMME

Internal auditors in charge of ministries and field offices will support the quality control program of the internal audit activity by ensuring the following:-

3.1 Audit activities are conducted in compliance with the International Standards for the Professional Practice of Internal Auditing, (IPPF). In case where full compliance with a specific standard is not possible due to other regulations, such as non-compliance should be documented.

3.2 The internal audit activity meets the expectations of the Board, Authorized Officer, Accounting Officer and management with regard to the strategic objectives of the organization.

3.3 The internal audit activity is strategically positioned to add value and improve the entity's operations through systematic review and evaluation of risk management, control and governance processes.

3.4 The internal audit activity employs appropriate audit tools and techniques, including the use of computer assisted audit tools and techniques (CAATS), in its day to day work.

3.5 The internal audit activity comprises of staff with a mix of knowledge, experience and discipline and will include continuous staff development. Staff should have relevant professional certifications including the following CIA, CPA, CISA, CFE, and CGAP

COUNTY GOVERNMENT INTERNAL AUDIT SERVICES DEPARTMENT

INTERNAL AUDIT QUALITY CONTROL PROGRAMME

The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program". (**Standard 1310)**

Internal auditors shall comply with the International Professional Practices Framework *as issued by the Institute of Internal Auditors from time to time.* (**Section 159)**

	Broad / Specific Review Areas	Task	Remarks
1.	***Internal Audit Activity's structure and characteristics***	Assess the appropriateness of the Internal Audit Function's (IAF): • Charter, • Mission statement, • Authority and Scope: the Authority, Scope and Responsibility of the IAF should be prescribed in a Charter signed by the Accounting Officer / Chief Executive of the Entity, the Chair of the Audit Committee and the Head of Internal Audit. (HIA) • Organizational Structure: the IAF should have an appropriate standing within the Entity's Organizational Structure and the HIA should be placed at an appropriately senior level similar to other Heads of Departments. • Reporting Lines: The HIA should report functionally to the Entity's Audit Committee and administratively to the Accounting Officer / Chief Executive. • Independence: the IAF and staff should be independent of the activities and functions it is required to audit. The IAF may only undertake consulting roles with specific safeguards. The IAF should develop and implement appropriate Policies, Procedures and Work Programmes.	
2	***Performing the Quality Assessment Review***	The Quality Assessment Team should adopt a systemic approach and methodology including: 1) Getting the HIA to complete a self-assessment questionnaire to facilitate detailed planning of the quality assessment review. 2) Reviewing the self-assessment completed by the HIA, and clarifying any issues that may arise or areas of concern. 3) Making a preliminary visit to the Entity to gather further information, adding details to the work plan, selecting and scheduling interviews with the Internal Audit function's stakeholders and staff, and preparing for the on-site reviews. 4) Using customer and staff surveys and summaries for guidance during on-site interviews and examination of documentation. 5) Performing on-site reviews, including: ▪ reviewing the Internal Audit function's administrative policies and procedures; ▪ considering the enterprise risk, governance and audit risk assessment in audit planning; ▪ reviewing the working papers and reports for selected audit and consulting projects undertaken by the Internal Audit function; ▪ reviewing the number and skills of staff and their continuing professional education; and, ▪ evaluating the capabilities and adequacy of audit coverage in Information Technology areas.	

	Broad / Specific Review Areas	Task	Remarks
		6) Interviewing selected members of the Audit Committee, executive management and Internal Audit staff, focusing on organizational risks and objectives of the Internal Audit function. 7) Considering other monitoring functions, similar to internal auditing, which may not be included in the Internal Audit function, such as evaluation, investigation, quality assurance, and process enhancement. 8) Reviewing and assessing the coordination of the Internal Audit function with the work of the independent auditors. 9) Evaluating the Internal Audit function's conformance to the *Standards* and other relevant standards. 10) Reviewing quality/process improvement actions currently underway and planned for in the short-term. Also considering best practices appropriate to the Entity's environment. 11) Drafting a report highlighting issues and recommendations arising from the quality assessment. Holding an exit meeting with the HIA to agree on the contents of the draft report. 12) Finalising submitting and discussing the report with the Entity's Accounting Officer / CEO. 13) Presenting the final report to the Entity's Audit Committee with a copy to Internal Auditor General.	
3 .	***Developing Annual and Project Plans***	Assessing whether Internal Audit's Annual and Activity Plans are guided by an assessment of the Entity's risk universe and the specific risks that may impact on the achievement of the Entity's strategic, operating, compliance, and reporting and sustainability objectives. Further assessing whether the IAF's work-plans are informed by an assessment of the entity's key risks with a ***significant amount of audit resources*** being dedicated to auditing the ***high-risk*** operations, activities and programmes. Also assessing whether Internal Audit reviews are also informed by periodic review of key quality assurance processes, reliance on control self-assessment processes.	
4 .	***Audit Engagement Process***	Assessing whether audit activities are approved by the Audit Committee and are scheduled on a plan prepared by the HIA. The Internal Audit engagement process should contain the following key elements: a) Notification of the Auditee prior to the planned commencement of fieldwork. b) Coordinating the audit engagement and discussion of audit findings and recommendations with the appropriate line and senior management. c) Completing the fieldwork within agreed budgets and timelines with little inconvenience as possible to line management.	

	Broad / Specific Review Areas	Task	Remarks
		d) Preparing and discussing draft reports prior to completion of fieldwork and discussing the report as part of the exit meeting. e) Ensuring that management responses are received in a timely manner and the final reports are sent to the Audit Committee.	

5.	***Audit productivity and value addition***	Assessment of:
		• Extent of accomplishment of annual audit work plan,
		• Metrics used by the internal audit unit activity
		• Reporting of overall results to,
		  ▪ Senior management,
		  ▪ The audit committee
		  ▪ Other appropriate stake holders.
		• Adequacy of audit and consulting services	

	Individual engagement and report review.	Review of: • Management of the engagement process, • Working papers, • Reports, • Follow-up • Selected additional audit and consulting reports • Disclosed opportunities for improvement.	
	Staff professional proficiency	Assessment of: • Staff knowledge and skills, • Continuing education • General human resource management • Existence of a code of ethics and staff awareness	

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Contacts

Internal Auditor General Department, Bima House, Harambee Avenue, 7th Floor
P.O. Box 30007-00100, Nairobi, Tel: +254 20 2292299 Ext. 33808
Email: internalaudit@treasury.go.ke, Website: http://www.internalaudit.go.ke