



PSASB
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

MODEL INTERNAL AUDIT MANUAL

*Aligned with the International
Professional Practices Framework*

Prepared for:

Public Sector Entities



August, 2025



Distribution and Use of the Manual

This Manual is intended for all Internal Auditors in Kenya's public sector entities. It aligns with the International Professional Practices Framework issued by the Global Institute of Internal Auditors, and users are encouraged to consult the latest standards at The Institute of Internal Auditors

The Manual is flexible and does not limit Internal Auditors from applying their experience, skills, or professional judgment, especially in assessing risks, evaluating controls, and selecting audit tests. Where challenges arise in understanding or applying the Manual, guidance should be sought from the Head of Internal Audit (HIA), who may consult the Public Sector Accounting Standards Board (PSASB) and the Internal Auditor General's Department (IAGD).

Relevant templates are available on the Public Sector Accounting Standards Board website (www.psasb.go.ke) and may be adapted to suit specific entity needs. Users should also refer to the acronyms and definitions section before the preamble for clarification of terms used in the Manual.

Contact Information

Chief Executive Officer
Public Sector Accounting Standards Board
CPA Centre, 8th Floor, Thika Road
P. O. Box 38831-00100
Nairobi, Kenya
www.psasb.go.ke

Email: info@psasb.go.ke
or
auditstandards@psasb.go.ke

FOREWORD

Internal audit is a mandatory function in all public sector entities under the Public Finance Management Act (PFMA), 2012. Sections 73(1) and 155(4) require National and County Government entities to establish an Internal Audit Function (IAF) to promote accountability, strengthen internal controls, safeguard public resources, and enhance governance.

PFM Regulations 161 and 154 require internal audits to comply with the International Professional Practices Framework (IPPF) and guidelines issued by the Public Sector Accounting Standards Board (PSASB) to ensure consistency across the public sector. The IAF must also comply with the Constitution of Kenya (2010) and other relevant laws and regulations.

Under the IPPF 2024, the IAF supports organisational value through independent risk-based assurance, advice, insight, and foresight. Internal audit helps ensure effective governance, risk management, and control systems so entities can achieve their mandates and strategic objectives.

This Manual was developed jointly by the PSASB, the Internal Auditor General's Department, and Heads of Internal Audit from public sector entities. Section 194 of the PFMA mandates PSASB to prescribe internal audit procedures, and through Gazette Notice No. 11033 of 30th August 2024, the Board adopted the IPPF for all public sector entities. The Manual therefore marks an important step toward standardising internal audit practices and streamlining operations across government institutions.

The Manual has been introduced during ongoing government reforms aimed at improving accountability and transparency in public finance management, including the shift to accrual accounting and the Zero-Fault Audit Regime. Internal audit is central to these reforms by providing assurance and guidance to support successful implementation.

All National and County Government entities, stakeholders, and partners are encouraged to support the implementation of this Manual to strengthen transparency, accountability, and sustainable public sector governance.



HON. FCPA JOHN MBADI NG'ONGO, EGH
CABINET SECRETARY, NATIONAL TREASURY & ECONOMIC
PLANNING

PREFACE

The Public Sector Entities Model Internal Audit Manual provides guidance for conducting effective and consistent internal audits in public sector entities. It outlines the laws, standards, and procedures governing internal audit and offers a structured approach covering audit planning, execution, reporting, and follow-up.

The Manual promotes independence, objectivity, professionalism, accountability, and transparency while supporting governance, risk management, internal controls, and safeguarding public resources. It aligns internal audit practices with national laws and international standards to enhance service delivery and value to citizens.

Intended for internal auditors, Accounting Officers, Governing Bodies, and Audit Committees, the Manual is a living document that will be updated regularly to reflect legal, regulatory, and professional changes.

The Manual was developed through a consultative process led by the PSASB and the National Treasury's Internal Auditor General Department, with input from public sector audit leaders and public participation. The National Treasury and PSASB remain committed to supporting its implementation to strengthen internal audit effectiveness and help public sector entities achieve their strategic objectives.



DR. CHRIS K. KIPTOO, CBS
PRINCIPAL SECRETARY, NATIONAL TREASURY

ACKNOWLEDGMENT

The Public Sector Accounting Standards Board (PSASB), under Section 194 of the PFMA, 2012, is mandated to prescribe standards, frameworks, and internal audit procedures for public sector entities. PFM Regulations for National and County Governments require internal auditors to comply with the International Professional Practices Framework (IPPF), whose adoption by the public sector was prescribed by PSASB in 2014 and reaffirmed in 2024.

Following the release of the 2024 IPPF and the Global Internal Audit Standards (GIAS), PSASB updated the Public Sector Entities Model Internal Audit Manual to align with current international standards and best practices. The Manual provides guidance for internal auditors in conducting audits effectively across all public sector entities, including MDAs and County Governments.

The Manual is supported by templates such as the Audit Committee Charter, Internal Audit Charter, and Internal Audit Strategic Plan, available on the PSASB website.

Its development was a collaborative effort between PSASB, the National Treasury's Internal Auditor General's Department, and various public sector institutions. PSASB acknowledged all contributors for their role in producing a resource aimed at strengthening internal audit practices, accountability, and good governance in the management of public resources in Kenya.



**FCPA PIUS NDUATHI, OGW, MBS
CHAIRPERSON, PUBLIC SECTOR ACCOUNTING STANDARDS
BOARD**

EXECUTIVE SUMMARY

This Manual guides public sector entities in Kenya on establishing and managing effective internal audit functions to strengthen governance, risk management, and internal controls. It promotes high professional standards to ensure internal auditors provide credible and reliable insights into organisational operations.

The Manual advocates for risk-based audit planning, focusing on high-risk areas to improve governance and control processes. It also emphasises ethics, professionalism, independence, competence, and effective communication between internal auditors, management, governing bodies, and audit committees.

Additionally, the Manual outlines key considerations for appointing Heads of Internal Audit, developing audit charters, establishing reporting lines, and ensuring clear reporting requirements. It highlights the importance of quality assurance, internal and external assessments, and continuous professional development to maintain effective and compliant internal audit functions.

Overall, the Manual supports transparency, accountability, good governance, and effective risk management across Kenya's public sector entities.

TABLE OF CONTENTS

CHAPTER 1 – PURPOSE, ETHICS AND GOVERNANCE (IAF)	1
1.0 Overview	1
1.1 Definition and Purpose of Internal Auditing	1
1.2 Ethics and Professionalism	2
1.3 Demonstrate Integrity	2
1.4 Maintaining Objectivity	3
1.5 Demonstrate Competence	5
1.6 Exercise Due Professional Care	6
1.7 Maintain Confidentiality	7
1.8 Governing the Internal Audit Function	8
1.9 Internal Audit Mandate	10
1.10 Organizational Independence	12
1.11 Safeguards to Independence	13
1.12 Organizational Position and Policies	14
1.13 Head of Internal Audit Qualifications	14
CHAPTER 2 – MANAGING THE INTERNAL AUDIT FUNCTION	15
2.1 Overview	15
2.2 Internal Audit Strategy	15
2.3 Risk-Based Internal Audit Planning	18
2.4 Coordination and Reliance	23
2.5 Managing IAF's Resources	24
2.6 Communication and Stakeholder Relationships	24
2.7 Audit Committee Secretary Roles	25
2.8 Administrative Roles	26
CHAPTER 3 – PERFORMING INTERNAL AUDIT SERVICES	27
3.1 Overview	27
3.2 Engagement Planning	28
3.3 Conducting Engagement Work	33
3.4 Communicate Engagement Results and Monitor Action Plans	39
CHAPTER 4 – PERFORMANCE MANAGEMENT (IAF)	44
4.1 Overview	44
4.2 Quality Assurance and Improvement Program	44
4.3 Reporting on the Quality Assurance and Improvement Program	53
4.4 Performance Measurement	53
4.5 Performance Management	55
4.6 Performance Contracting (PC)	55
4.7 Staff Performance Appraisal System	57

LIST OF ABBREVIATIONS

ACFE	Association of Certified Fraud Examiners
CAATTs	Computer Assisted Audit Tools and Techniques
CAE	Chief Audit Executive
CAF	Current Audit File
CIA	Certified Internal Auditor
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoK	Constitution of Kenya
EACC	Ethics and Anti-Corruption Commission
HIA	Head(s) of Internal Audit
IAF	Internal Audit Function
IAGD	Internal Auditor General's Department
ICF	Internal Control Framework
ICT	Information Communication Technology
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
ISO	International Organization for Standardization
OAG	Office of the Auditor General
PAF	Permanent Audit File
PFM	Public Finance Management
PFMA	Public Finance Management Act
PFMR	Public Finance Management Regulations
PPRA	Public Procurement Regulatory Authority
PSASB	Public Sector Accounting Standards Board
QAIP	Quality Assurance and Improvement Program

PREAMBLE

The PFMA, 2012 requires all National and County Government entities to establish Internal Audit Functions and Audit Committees, guided by the Constitution of Kenya, PFM Regulations, IPPF 2024, Mwongozo, government circulars, and other relevant laws and guidelines.

The Public Sector Entities Model Internal Audit Manual was developed to support the adoption of IPPF 2024 and provide best-practice procedures, templates, and guidance for managing and performing internal audit services. It aims to strengthen governance, transparency, accountability, integrity, and public finance management across public sector entities.

The Manual, together with other internal audit guidelines, offers practical direction for implementing internal audit standards, while allowing entities to customise introductory sections to reflect their specific mandates and governing legislation.

Objectives of the Manual

The Public Sector Entities Internal Audit Manual, developed by PSASB under the PFMA, provides guidance and standards for managing internal audit functions in public sector entities. It aligns with the PFMA, PFM Regulations, IPPF 2024, and Audit Committee Guidelines.

The Manual aims to strengthen governance, risk management, and internal controls by providing practical guidance for conducting effective internal audits and enhancing compliance with professional standards. It also serves as a reference for internal auditors in Kenya's public sector.

Applicable to all public sector internal audit functions, the Manual will be reviewed regularly and may be customised by entities, provided compliance with legal and professional requirements is maintained. It is organised into four chapters covering governance, management, audit performance, and performance management of internal audit functions.

CHAPTER 1 – PURPOSE, ETHICS AND GOVERNANCE OF INTERNAL AUDIT FUNCTION

1.0 Overview

This chapter provides the definition and purpose of internal auditing, the principles and standards in the Ethics and Professionalism that set behavioural expectations for internal auditors regarding integrity, objectivity, competency, exercising due professional care and confidentiality. In addition, the chapter covers Domain III on Governing the Internal Audit Function which includes “essential conditions” for an effective internal audit function by setting requirements for positioning and overseeing functions through collaboration between the Head of Internal Audit (HIA), the governing body and senior management.

1.1 Definition and Purpose of Internal Auditing

Internal Auditing is an independent, objective assurance and advisory service designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes (IPPF 2024). Internal auditing strengthens the entity’s ability to create, protect, and sustain value by providing the Governing body and senior management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The Internal audit function will enhance the entity’s:

- a. Successful achievement of its objectives.
- b. Governance, risk management, and control processes.
- c. Decision-making and oversight.
- d. Reputation and credibility with its stakeholders.
- e. Ability to serve the public interest.

The Internal audit function will be most effective when:

- a. It is performed by competent professionals in conformance with the GIAS.
- b. It is independently positioned with direct accountability to the Governing body.

Internal auditors are free from undue influence and committed to making objective assessments. Head of Internal Audit is responsible for leading the internal audit function that must respond to increasing challenges and demands for transparency, accountability, and effectiveness within the entity.

Internal auditors shall be aware of the political environment but must remain objective in their work.

1.2 Ethics and Professionalism

These are behavioural expectations for internal auditors within the public sector. All internal auditors are required to conform with the standards of ethics and professionalism; abide by the entity's code of ethics, Constitution of Kenya 2010 and any other relevant laws and policies.

1.3 Demonstrate Integrity

1.3.1 Principle 1: Demonstrate Integrity

Internal Auditors demonstrate integrity in their work and behaviour.

Internal auditors are expected to adhere to moral and ethical principles, including demonstrating honesty and the courage to act based on relevant facts, even when facing pressure to do otherwise, or when doing so might create potential adverse personal or organizational consequences. The integrity of internal auditors is essential to establish trust and earn respect within the entity.

1.3.2 Honesty and Professional Courage

In cases where internal auditors encounter situations that challenge their honesty or professional courage, they should discuss the circumstances with a supervisor to determine the best course of action.

1.3.3 Organization's Ethical Expectations

Internal auditors shall perform their work with honesty and professional courage, contribute to the legitimate and ethical expectations of the entity. Further, they shall understand and abide by relevant laws and/or regulations, including making required disclosures.

The internal audit plan shall include assessments of the entity's ethics-related risks to determine whether existing policies and control processes adequately and effectively address those risks. Internal auditors shall consider ethics-related risks and controls during individual engagements.

1.3.4 Legal and Ethical Behavior

Internal auditors shall adhere to the laws, regulations, organizational policies and procedures that govern the entity's processes. The HIA shall develop procedures that specify the actions internal auditors are expected to take in response to legal or regulatory violations of which they identify during audit engagements including the steps for validating that adequate actions

are taken to address the violation.

1.4 Maintaining Objectivity

1.4.1 Principle 2: Maintain Objectivity

Internal Auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

1.4.2 Individual Objectivity

Internal auditors shall undertake their work without compromise or subordination of judgment. The HIA in conformance with the GIAS shall establish procedures that set forth a systematic and disciplined approach for gathering and evaluating information to provide a balanced assessment of activities under review.

Examples of biases include but are not limited to:

- a. Self-review bias
- b. Familiarity bias
- c. Prejudice or unconscious bias

There are situations in which certain responsibilities may create (actual or perceived) impairment of internal auditors' objectivity. Such responsibilities include:

- a. Having a direct operational responsibility on development and implementation of policies and procedures other than those originating from Internal Audit Function.
- a. Conducting investigations.

1.4.3 Compliance or Risk Management Implementation Activities.

In discharging the responsibilities above, appropriate safeguards must be put in place. Internal auditors may at times be in situations that may result to impairment of their objectivity. These include:

- a. Auditing an area where recently the internal auditor was undertaking a management role.
- b. Auditing an area which may result to conflict of interest e.g. an area where family member of close friend is working in or an area where the Internal Auditor has self-interest.
- c. Preconceived ideas towards individuals, or towards the audited bodies or their projects or programmes.
- d. Auditing an area where the internal auditor provided advisory services in which the nature of the advisory impaired objectivity and the individual objectivity was not managed when assigning resources to the assignment.

- e. Financial interest by the internal auditor or close association in the audited body, or its activities.
- f. Assuming without evidence that an area under audit is acceptable based solely on prior positive experience.
- g. Long-term deployment of internal audit staff to one Department or Function can affect their independence and impartiality.

1.4.4 Safeguarding Objectivity

Internal auditors shall recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity. Internal auditors shall not accept any tangible or intangible item, such as a gift, reward, or favour, that may impair or be presumed to impair objectivity.

When performing internal audit services: Internal auditors shall refrain from assessing specific activities for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous 24 months.

To manage the risk of impairment of the internal auditor objectivity the governing body and or the accounting officer shall work with the HIA to ensure internal auditors do not;

- a. Perform duties outside the internal audit mandate.
- b. Initiate or approve accounting transactions external to the IAF.
- c. Direct the activities of any employee at the entity not employed by the IAF, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- d. Ensure that, where management activities have been assigned to IAF a transition plan shall be developed by the accounting officer.
- e. Ensure internal auditors exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined or audited.
- f. Ensure Internal Auditors make balanced assessments of all available and relevant facts and circumstances and disclose all material facts known which if not disclosed could distort the reports or conceal unlawful practice.
- g. Ensure internal auditors take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- h. Ensure Internal Auditors do not accept any gifts, inducements, or

other benefits from employees of the function being audited, or their suppliers and other third parties.

- i. Obtain external assurance on management activities being undertaken by IAF.
- j. Regularly review the responsibilities assigned to the HIA and the impact they have on objectivity of Internal Auditors.
- k. Regularly review the reporting lines of the HIA and assess if there are any factors that would impair internal audit objectivity.

Where the HIA determines that a certain threat will impair the individual objectivity, he or she shall communicate in writing to the governing body. The HIA shall include the following in the report.

- a. The identified threat(s)
- b. Analysis of the threat(s), including root cause analysis
- c. Projected impact of the threat(s)
- d. Suggested safeguard interventions

1.4.5 Disclosing Impairment to Objectivity

Internal auditors shall disclose and mitigate impairment to objectivity as determined by HIA in agreement with the governing body and senior management.

1.4.6 Adjusting the Scope of an Engagement

When an issue arises during engagement planning that relates to impairment, the HIA may discuss the concern with senior management of the activity under review and explain why the risk exposure is minimal/maximal and how it will be managed and document the discussion and the final decision about how to proceed.

1.5 Demonstrate Competence

1.5.1 Principle 3: Demonstrate Competency

Internal Auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully

1.5.2 Competency

Internal auditors shall seek to maintain and develop their professional knowledge, skills and competencies as provided for in the entity's career progression guidelines and annual training plans. Internal auditors shall seek the highest levels of competency and take personal responsibility for self-improvement and professional development.

The HIA shall ensure the individual staff and the IAF collectively have the required mix of knowledge, skills and other competencies to implement: the Internal Audit Charter; Internal Audit Strategic Plan and Annual Risk-Based Internal Audit Plan; and to add value to the entity.

To ensure the internal audit function collectively possesses the competencies to perform the internal audit services, the HIA shall:

- a. Maintain knowledge of internal auditors' competencies to be used when assigning work, identifying training needs and recruiting internal auditors to fill open positions.
- b. Undertake the performance reviews of individual internal auditors.
- c. Identify areas in which the competencies of the internal audit function should be improved.
- d. Encourage internal auditors' intellectual curiosity and invest in training and other opportunities to improve internal audit performance.
- e. Understand the competencies of other providers of assurance and advisory services and consider relying upon those providers as a source of additional or specialty competencies not available within the internal audit function.
- f. Contract an independent, external service provider when the internal audit function collectively does not possess the competencies to perform requested services.
- g. Effectively implement a quality assurance and improvement program.

1.5.3 Continuing Professional Development

To improve the quality of performing internal audit services, internal auditors shall seek opportunities to learn about trends and best practices as well as emerging topics, risks and changes that may affect the entity and the internal audit profession.

Internal auditors possessing credentials, such as the Certified Internal Auditor® designation, should be aware of the specific requirements of the certifying body's policy for maintaining their credentials. Failing to fulfil such requirements may result in consequences, including jeopardizing internal auditors' permission to use the credentials.

1.6 Exercise Due Professional Care

1.6.1 Principle 4: Exercise Due Professional Care

Internal Auditors apply due professional care in planning and performing

internal audit services.

Due professional care requires planning and performing internal audit services with the diligence, judgment and skepticism possessed by prudent and competent internal auditors. When exercising due professional care, internal auditors perform in the best interests of those receiving internal audit services but are not expected to be infallible.

1.6.2 Due Professional Care

To exercise due professional care, internal auditors shall consider and understand the purpose and nature of internal audit services, the internal audit charter, the internal audit plan and the factors that help determine which engagements are included in the plan. During planning and performing internal audit services, internal auditors shall also consider the interests of the stakeholders.

1.6.3 Professional Skepticism

Professional skepticism enables internal auditors to make objective judgment based on facts, information and logic, rather than trust or belief. Scepticism is the attitude of always questioning or doubting the validity and truthfulness of claims, statements and other information.

When gathering and analysing information, internal auditors shall apply professional scepticism to determine whether information is relevant, reliable and sufficient. If internal auditors determine that information is incomplete, inconsistent, false or misleading, they shall perform additional analyses to identify the correct and complete information needed to support engagement results.

The HIA can facilitate internal auditors to participate in workshops and other training opportunities to help internal auditors develop and learn to apply professional scepticism and understand the importance of avoiding bias and maintaining an open and curious mindset.

1.7 Maintain Confidentiality

1.7.1 Principle 5: Maintain Confidentiality

Internal Auditors use and protect information appropriately.

Internal auditors have unrestricted access to the data, activities, records and other information in digital, oral or physical form necessary to fulfil the internal audit mandate therefore it is paramount for them to maintain confidentiality. Internal auditors shall respect the value and ownership of

information they receive by using it only for professional purposes and protecting it from unauthorized access or disclosure, internally and externally.

HIA shall ensure IAF understand and follow the relevant laws, regulations, policies and procedures on:

- a. Custody, retention and disposal of engagement records.
- b. Release of engagement records to internal and external parties.
- c. Handling of, access to or copies of confidential information when it is no longer needed.

Code of Conduct and Declaration of Conflict-of-Interest Template has been provided on PSASB website www.pasb.go.ke for guidance.

1.7.2 Use of Information

Using and handling information appropriately is the responsibility of every internal auditor. The inappropriate use of information may have unintended consequences.

1.7.3 Protection of Information

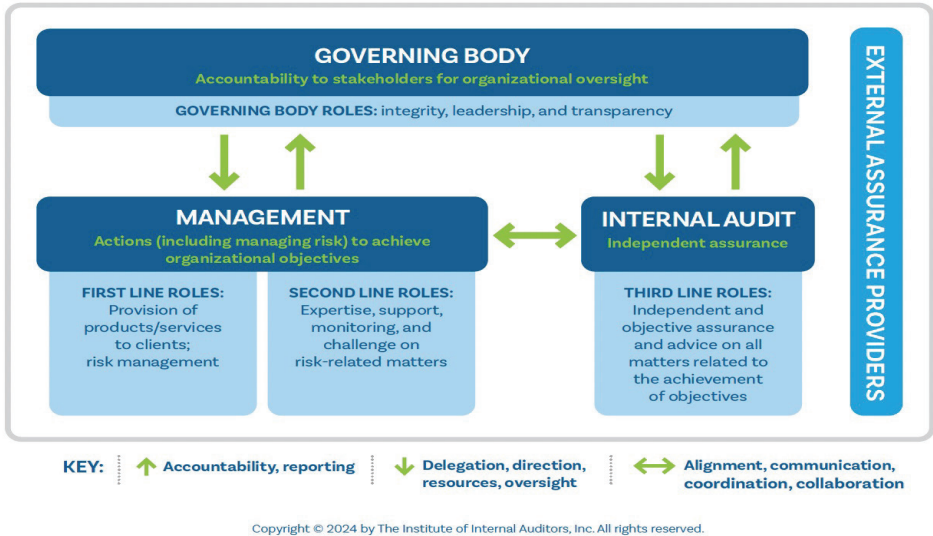
The HIA should consult with legal counsel to better understand the impact of legal and/or regulatory requirements and protections. Internal auditors must not disclose confidential information to unauthorized parties unless there is a legal or professional responsibility to do so.

1.8 Governing the Internal Audit Function

Internal auditing is integral to effective governance and helps the entity achieve its objectives and measure results. Internal auditing must reflect on and align with the entity's governance.

1.8.1 IIA Three Lines Model

The IIA's Three Lines Model and its application in the entity shall help identify structures and processes that best assist in achieving objectives and facilitate strong governance, risk management and controls. Its strength is that it is visual and serves to engage management and other compliance functions and explain their roles.



Governance – Entities require structures and processes that enable accountability, actions, and independent assurance and advice.

Governing Body Roles – The governing body ensures:

- appropriate structures and processes are in place and
- entity's objectives and activities are aligned with the prioritized interests of stakeholders. The governing body delegates responsibility and resources and oversees an independent, objective, and competent internal audit function.

Management and First and Second-Line Roles – Management's responsibility is to achieve entity's objectives. The first- and second-line roles help enable actions to achieve objectives.

Third Line Roles – The internal audit function provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. Third Line

Independence – The internal audit function's independence from management responsibilities is critical to its objectivity, authority, and credibility.

External Assurance Providers – These include the Office of the Auditor-General and other assurance providers.

Creating and Protecting Value – All roles working together collectively contribute to creating and protecting value when they are aligned with each other and with the prioritized interests of stakeholders.

The governing body, senior management and the internal audit function have a unique partnership that drives entity's success. All three parties must support each other to enable that success.

1.9 Internal Audit Mandate

1.9.1 Principle 6: Authorized by the Board

The Board establishes, approves, and supports the mandate of the internal audit function. The mandate specifies the authority, role and responsibilities of the IAF and is further documented in the Internal Audit Charter. The mandate empowers the IAF to provide the governing body and senior management with objective assurance, advice, insight and foresight.

The authority allows free and unrestricted access to the governing body, all activities of the entity including records, staff and physical property.

1.9.2 Internal Audit Charter

The Internal Audit Charter, as outlined in Standard 6.2, is a critical document that defines the internal audit function's positioning within the entity, detailing the HIA's functional reporting relationship with the governing body. This relationship ensures that internal audit services are carried out objectively and independently, allowing for independent oversight of the internal audit function.

The internal audit charter also clarifies the HIA's accountability and specifies who will receive final engagement communications. Furthermore, it empowers the internal audit function to provide assurance, advisory, insight and foresight into governance, risk management, and control processes.

The HIA shall discuss the proposed charter with the governing body and senior management to confirm that it accurately reflects the understanding and expectations of the internal audit function. The Internal Audit Charter shall be approved by the governing body.

Internal Audit Charter Template has been provided on PSASB website www.psasb.go.ke for guidance.

Governing Body and Senior Management Support

The Governing body should:

- a. Discuss with the HIA and senior management the appropriate authority, role, and responsibilities of the internal audit function.
- b. Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.
- c. Review the internal audit charter with the HIA to consider changes affecting the organization, such as the employment of a new HIA or changes in the type, severity, and interdependence of risks to the organization.
- d. Recommend to the governing body the approval of audit committee charter.
- e. Champion the IAF to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.
- f. Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, staff and physical properties necessary to fulfill the internal audit mandate.
- g. Approve the internal audit plan, budget, and resource plan and oversee its implementation.
- h. Making appropriate inquiries of senior management and the HIA to determine whether any restrictions on the internal audit function's scope, access, authority, or resources limit the function's ability to carry out its responsibilities effectively.
- i. Establish a direct reporting relationship with the HIA and the internal audit function to enable the internal audit function to fulfill its mandate.
- j. Approve the appointment and removal of the HIA.
- k. Drive the performance evaluation of the HIA.
- l. Provide the HIA with opportunities to discuss significant matters with the governing body, including meetings without senior management present.
- m. Require that the HIA be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management.
- n. Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the HIA that are beyond the scope of internal auditing.
- o. Engage with senior management and the HIA to establish appropriate safeguards if HIA roles and responsibilities impair or appear to impair the internal audit function's independence.

- p. Facilitate effective communication and relationship between internal audit and other assurance providers.

Senior Management Support

The Accounting Officer should:

- a. Work with the governing body throughout the entity to enable the internal audit function's unrestricted access to the data, records, information, staff, and physical properties necessary to fulfil the internal audit mandate.
- b. Participate in discussions with the governing body and HIA and provide input on expectations for the internal audit function that the governing body should consider when establishing the internal audit mandate.
- c. Provide input in the internal audit workplan.
- d. Support the internal audit mandate, recognition and promote the authority granted to the internal audit function throughout the organization.
- e. Position the internal audit function at a level within the organization that enables it to perform its services and responsibilities without interference, as directed by the governing body.
- f. Recognize HIA's direct reporting relationship with the governing body
- g. Provide input to the governing body on the appointment and removal of the HIA.
- h. Participate in the performance evaluation of the HIA.
- i. Ensure implementation of appropriate action plans on audit recommendations.
- j. Facilitate provision of the resources for the internal audit function.
- k. Facilitate communication and collaborations with other assurance providers.
- l. Exceptions to Essential Conditions

The HIA may agree with the governing body and senior management that conformance with the Standards and achievement of the principles can be achieved without one or more essential conditions. In such instances, the HIA must document:

- a. The reasons for agreeing that a particular condition is unnecessary
- b. Alternative conditions that compensate for the absent conditions and support the judgments of the governing body and senior management.

1.10 Organizational Independence

Principle 7: Positioned Independently

The Board establishes and protects the internal audit function's independence and qualification. Independence is the freedom from conditions that threaten the ability of the IAF to carry out its responsibilities in an unbiased manner. The governing body is responsible for enabling the independence of the IAF.

Governance structures support the internal audit function's independence by allowing for independent oversight of internal audit work plans (objectives, scope, resources, and results) and independent mediation of the relationship between the internal audit function and the entity. When an independent governance structure cannot be established, the circumstances and potential consequences as well as the safeguards should be discussed and documented in the internal audit charter.

The HIA shall discuss with the governing body and senior management any current or proposed roles and responsibilities that have the potential to impair the internal audit function's independence, either in fact or appearance. The HIA shall advise the governing body and senior management of the types of safeguards to manage actual, potential, or perceived impairment.

The impairment may include:

- a. The HIA lacks direct communication or interaction with the governing body.
- b. Senior Management attempts to limit the scope of the internal audit services that were previously approved by the governing body and documented in the internal audit charter.
- c. Senior Management attempts to restrict access to the data, records, information, staff, and physical properties required to perform the internal audit services.
- d. Senior management pressures internal auditors to suppress or change internal audit findings.
- e. The budget for the internal audit function is reduced to a level that leaves the function unable to fulfil its responsibilities as outlined in the internal audit charter.
- f. An assurance engagement is performed by the internal audit function or supervised by the HIA in a functional area for which the HIA is responsible, has oversight, or is otherwise able to exert significant influence.

1.11 Safeguards to Independence

The following activities support the independence of the IAF:

1.11.1 Environment — Strong Organizational Governance System

The entity shall create a supportive environment that encourages auditors to audit and report without restriction and fear of retaliation for negative opinions or critical findings. The effectiveness of the governing body is a significant component of creating a supportive environment which is crucial in ensuring internal audit activities independence.

1.11.2 Co-Sourcing

When internal structure and mechanisms cannot be effectively used to manage threats to independence, co-sourcing to an external service provider can help promote independence of internal audit activities.

1.12 Organizational Position and Policies

The HIA and/or IAF's organizational position and internal audit charter may bolster the HIA's position in the entity and create barriers for audit clients to influence or intimidate internal auditors.

1.12.1 Internal Audit Charter

An Internal audit charter that outlines IAF's responsibilities, authority and reporting relationships, unrestricted access to information, staff, and records can help promote independence.

1.12.2 Hiring Practices

Hiring practices can be a safeguard for independence. For example, screening can ensure that potential employees do not have conflicts of interests that threaten the IAF's independence.

1.13 Head of Internal Audit Qualifications

The governing body shall collaborate with senior management to determine which competencies and qualifications the entity expects in a HIA, subject to the entity's human resource policies and procedures Manual. The competencies shall be guided by the internal audit mandate, the complexity and specific needs of the entity, the entity's risk profile, and the industry among other factors.

The HIA should pursue continuous professional education, membership in professional bodies, professional certifications, and other opportunities for professional development.

CHAPTER 2 – MANAGING THE INTERNAL AUDIT FUNCTION

2.1 Overview

This chapter covers Internal Audit Strategy, Risk-based internal audit planning, coordination and reliance on work done by other assurance providers, resourcing, communication and stakeholder relationships, audit committee secretarial roles and other administrative functions.

The HIA is responsible for managing the IAF in accordance with the internal audit charter and International Professional Practices Framework. This responsibility includes strategic planning, obtaining and deploying resources, building relationships, communicating with stakeholders, and enhancing the performance of the IAF.

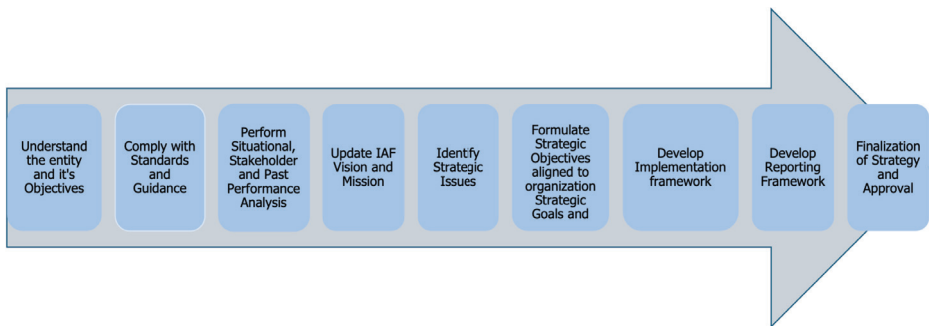
2.2 Internal Audit Strategy

Principle 9: Plan Strategically

The chief audit executive plans strategically to position the internal audit function to fulfil its mandate and achieve long-term success.

2.2.1 Strategy Formulation Process

The HIA should use a systematic and structured process in developing the strategy to enable the IAF to achieve its purpose. In preparing the strategy, the HIA must consider the strategies, objectives, risks and controls of the entity; the Internal Audit Charter, IPPF requirements and the applicable legal and regulatory frameworks. The figure 2 below describes critical steps to be undertaken when developing the IAF's strategy;



Understanding the Entity and its Objectives

For an IAF to deliver value, it should contribute to the achievement of the organization's objectives while providing assurance that the organization maintains an ethical environment and culture of accountability. The HIA must therefore have an in-depth understanding of the organization's governance, risk management, and control processes to enable the IAF identify and prioritize opportunities to provide internal audit services that may enhance the organization's success.

Comply with Standards and Guidance

The HIA shall take into account provisions laid out in the IPPF when developing internal audit strategy. The IAF should adopt values contained within the ethics and professionalism principles (as further expounded in chapter 1) alongside the entity's specific values and codes of conduct.

Perform Situational, Stakeholder and Past Performance Analyses

The HIA shall undertake an assessment of the current state of the IAF to identify key internal and external factors that are important to achieving the strategy. The IAF may use SWOT and/or PESTEL among other techniques to perform this assessment.

Update the IAF Vision and Mission

The HIA should develop and update the vision and mission statements based on situational, stakeholder and past performance analyses. The purpose of establishing a vision statement is to articulate the IAF's philosophy and what it hopes to contribute to the entity. The mission outlines the internal audit activity's primary business purpose, what it plans to achieve in the future, and how it integrates into the organization's strategic plan.

Identify Strategic Issues to inform formulation of IAF's strategic objectives aligned to the organization's Strategic Goals and Key Result Areas.

Develop the Implementation Framework

The HIA shall develop an implementation matrix for each objective in the strategic plan that outlines the strategies, activities, key performance indicators, timelines, resources and responsible persons.

Develop Reporting Framework

The HIA shall develop a framework that enables continuous tracking and reporting to relevant stakeholders on the status of implementation of the activities outlined in the implementation matrix.

Finalization of the IAF Strategy and Approval

The HIA should validate the draft strategy with IAF stakeholders prior to its finalization to enhance awareness and buy-in across the organization. The HIA must obtain final approval of the IAF strategy from the organization's Governing Body.

2.2.2 Contents of an Internal Audit Strategy

The HIA should ensure the Internal Audit Strategy is in-line with the organization's Strategic Plan. The strategy should contain the following elements;

Introduction - This section shall provide the background of the entity and mandate of the IAF as guided by the relevant legal and regulatory framework and the entity's Internal Audit Charter aligned to 2024 IPPF.

Situational and Stakeholder Analysis – Situational analysis demonstrates an understanding of the developments in the IAF's external environment to appreciate the implications of such developments as manifested in opportunities and or threats. The opportunities and or threats should inform identification of appropriate strategic responses by the IAF.

Analysis of Past Performance - The IAF should undertake an evaluation of their past performance based on the level/ extent of achievement of the previous strategy objectives where applicable. The IAF should identify the knowledge gained during implementation of previous strategy which shows how issues were addressed or should be addressed in the future for the purpose of improving future performance.

Strategic Direction - Pursuant to the situational and stakeholders' analyses outlined above, the IAF should identify strategic objectives and activities that are linked to the attainment of organisation strategic goals and key result areas. The IAF should highlight the following;

Vision Statement - This is a possible and desirable future state of the IAF in the entity. It describes aspirations for the future – a destination for the IAF.

Mission Statement - The Mission articulates how the Internal Audit aims to achieve the vision.

Values - The values should articulate the guiding principles which under-

score the core priorities in the IAF's culture and are aligned to the entity's values and the behavioural expectations for internal auditors as outlined in ethics and professionalism in Chapter 1 above.

Objectives and Strategies - The Internal Audit Strategy must be aligned to the organizational strategic objectives and key risks. The IAF shall define strategic objectives that meet the specific, measurable, attainable, realistic and time bound (SMART) criteria and the six perspectives of the balanced scorecard (Financial, Customer, Internal Processes, Learning and Growth, Environmental and Social Justice) as appropriate.

Implementation Framework - The IAF should develop an implementation plan which describes how the strategic plan will be operationalized. The annual activities as per the implementation plan should be incorporated in the entity's budget, annual risk based internal audit plan and the IAF's staff annual performance tools.

Resource Requirements – The IAF shall identify financial, human and technological resource requirements inclusive of a budget for the implementation of the action plan.

Monitoring, Evaluation and Reporting - The IAF strategic plan shall have a framework to monitor, evaluate and report on its implementation. It shall also have a risk matrix indicating events that impede achievement of the plan and strategies instituted to manage the risk events.

Approval - Final approval must be obtained from the organization's Governing Body.

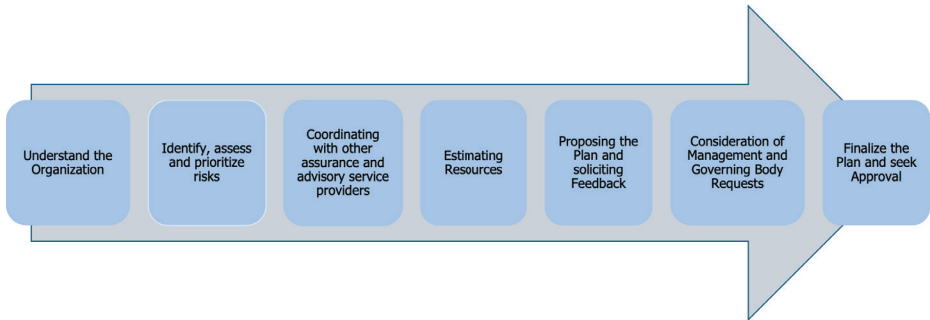
2.2.3 Review of the Internal Audit Strategy

The internal audit strategy should be periodically reviewed and appropriately updated in response to the changes in the entity's external and internal environment. Internal Audit Strategy Template has been provided on PSASB website www.psasb.go.ke for guidance.

2.3 Risk-Based Internal Audit Planning

2.3.1 Annual Planning Process

The HIA must prepare an internal audit plan based on a documented assessment of the entity's strategies, objectives, and risks. The assessment shall be informed by input from the governing body and management as well as the IAF's understanding of the entity's governance, risk management, and control processes and must be performed at least annually.



Understanding the Organization

The HIA must have an in-depth understanding of the organization's strategies, objectives, processes and key risks through;

- a. reviewing of key organizational documents, such as relevant legal instruments, strategic plan and organization chart to gain insight into the organization's business processes and potential risks and control points.
- b. attending meetings with the governing body and key governance committees.
- c. attending regular meetings (phone, web, or in-person) of senior management and/or those who report directly to senior management (i.e., second line roles, such as compliance, risk management, and quality control).
- d. using tools such as surveys, interviews, and group workshops (e.g., brainstorming sessions and focus groups) for obtaining input and identifying emerging risks and fraud risks.
- e. Identify, assess and prioritize risks

When developing the internal audit plan, the HIA should consider the engagements required by laws or regulations; engagements critical to the organization's mission or strategy.

The IAF should emphasize on significant risks and identify manageable, timely, and value-adding engagements that reflect the organization's priorities. To facilitate this, the following can be undertaken;

- a. Establish the audit universe i.e., all potentially auditable areas within an organization that may include functions, processes, systems and locations.

- b. Group the audit universe into manageable audit areas.
- c. Undertake risk identification and assessment of the auditable areas.
- d. Prioritization of the audit assignment based on various risk assessment approaches and available resources.
- e. Coordinating with Other Assurance and Advisory Services Providers
- f. The IAF adds value by providing assurance and advisory services where the highest residual risk exists. The HIA should therefore consider whether all significant risks have sufficient coverage by assurance providers.

Estimating Resources

The HIA must obtain and deploy financial, human, and technological resources effectively to implement the plan.

Proposing the Plan and Soliciting Feedback

All the preparatory work culminates in a draft version of the internal audit plan to be presented, discussed, revised, and finalized for approval. The HIA must discuss the plan with senior management before formalizing it for presentation to the audit committee and/or governing body.

Consideration of Governing Body and Management Requests

The HIA should address any concerns that may arise from the request by the governing body and/or Senior management for assurance and advisory services in areas or processes that are not among top priorities in the risk assessment for consideration.

Finalize the Plan and Seek Approval

The HIA evaluates senior management feedback and incorporates relevant information to ensure that the plan appropriately reflects the organization's priorities. The internal audit plan shall be submitted to the Audit Committee by the 15th of February each financial year for approval and shared with the accounting officer, in sufficient time for inclusion in the budget of the entity as per regulations 170 and 163 of the PFMR, 2015 for National and County Government entities respectively.

On a quarterly basis the HIA shall provide progress reports to the governing body and Management on the implementation of the plan and budget. Such reports shall provide information on any resource constraints that the IAF is facing and the impact of this on the implementation of the Internal Audit plan and the risk exposure that the entity may face.

2.3.2 Annual Planning Approaches

The HIA may consider risk assessment approaches such as the risk factor and the specific risk when determining the areas in the audit universe that are to be prioritized for audit.

Risk Factor Approach

Under the risk factor approach, a set of generic 'risk factors' or 'selection factors', are identified to review the importance of each element of the audit universe and determine the priority that should be attached to each.

The factors may include;

- a. Risk assessment
- b. Budgetary Allocation
- c. Areas of Management Concern
- d. Significant organizational Changes
- e. Results of Prior Audits

The HIA can review the risk or selection factors, assigned weights and rating scores appropriately during the annual planning process and ensure consistent application. The resultant weighted scores will inform the ranking and scheduling of audit engagements for the year.

Specific Risk Approach

Under the specific risk approach the following steps are followed to assess the risks in each auditable element;

- a. Understanding the processes and objectives.
- b. Identifying risks
- c. Analysing the risks
- d. Inherent risk assessment level
- e. Residual risk assessment level

In accordance with the entity's risk management policy, risks may be measured as high, medium or low. Individual risk scores are grouped for each auditable area (process) to give the relative significance of each auditable area in the audit universe. Overall risk ratings can be classified as high, medium or low risks and plotted on a Heat Map.

HIAs are advised to refer to the global guidance and the annual internal audit plan template for further guidance. These approaches will not apply for mandatory engagements such as financial statements review, or en-

gements defined by donor conditions, engagements required by laws and regulations, engagements critical to the organization's mission or strategy, advisory and ad hoc requests.

2.3.3 Contents of the Risk-based Internal Audit Plan

The proposed risk based internal audit plan should include:

Executive summary – This short overview of key points typically includes a one-page summary of the most significant risks, the planned engagements and basic schedule, and the staffing plan.

Introduction - This section shall provide the background of the entity and mandate of the IAF as guided by the relevant legal and regulatory framework and the entity's Internal Audit Charter aligned to 2024 IPPF.

Risk Assessment Summary – A description of the risk assessment process and results enhances the board's understanding of internal audit's priorities. Information may include Organizational strategy, key areas of focus, key risks, and associated assurance strategies in the audit plan, analyses of inherent and/or residual risk levels of auditable areas, risk scores/ratings for auditable units, heat map for entire audit universe indicating priorities, inclusions, and exclusions.

The list of proposed engagements and related analysis, specifying whether the engagements are assurance or advisory, tentative scopes and objectives of engagements, tentative timing and duration. Rationale for inclusions and exclusions of auditable areas on exceptional basis should be provided.

Resourcing the plan - This section identifies the type and quantity of resources that will be needed to execute the plan. The resources (financial, human and technological) and hours available for engagements compared to other administrative and non-audit activities or initiatives focused on improving the IAF e.g training (capacity building), strategic activities, contingencies, ad hoc requests.

Approval - Final approval must be obtained from the organization's Governing Body.

Review - The HIA must review and revise the internal audit plan as necessary and communicate timely to the board and senior management.

2.3.4 Review of Internal Annual Plan

The HIA, the board, and senior management should agree upon the criteria that define significant changes that require a revision of the audit plan.

2.4 Coordination and Reliance

The HIA should identify the organization's assurance and advisory service providers by communicating with senior management and reviewing the organizational reporting structure and board meeting agendas or minutes.

The HIA should evaluate other providers of assurance and advisory services to determine the basis for relying upon their work. To determine whether the IAF may rely on the work of another assurance provider the assessment should consider:

- a. Potential or actual conflicts of interest and whether disclosures were made.
- b. Organizational independence, reporting relationships and the potential impacts of this arrangement.
- c. Relevance and validity of competency, professional experience, qualifications, and certifications.
- d. Methodology and the due professional care applied in planning, supervising, documenting, and reviewing the work.
- e. Findings and conclusions and whether they are reasonable, based on sufficient, reliable, and relevant evidence.
- f. The HIA should understand the objectives, scope, and results of the work performed. Examples of coordinating activities may include:
 - i. Synchronizing the nature, extent, and timing of planned work.
 - ii. Establishing a common understanding of assurance techniques, methods, and terminology.
 - iii. Providing access to one another's work programs, workpapers, and reports.
 - iv. Meeting, on a need basis, to determine whether it is necessary to adjust the timing of planned work, based on the results of work that has been completed.
 - v. Combining results for joint reporting.
 - vi. Using management's risk management information to provide joint risk assessments.
 - vii. Creating a shared risk register or list of risks.
- h. Coordination with other assurance providers could be undertaken through.
- i. Creating an assurance map, or a matrix of the organization's risks and

the internal and external providers of assurance services that cover those risks.

- j. Combined assurance approach, whereby the HIA coordinates the internal audit function's assurance engagements with other assurance providers to reduce the frequency and redundancy of engagements, maximizing the efficiency of assurance coverage.
- k. Co-ordination and Reliance Template has been provided on PSASB website www.pasb.go.ke for guidance.

2.5 Managing IAF's Resources

Principle 10: Manage Resources

The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.

2.5.1 Financial Resource Management

The HIA shall follow the budget process adopted by the entity, while preparing the IAF's budget which shall be adequate and approved by the Governing Body.

2.5.2 Human Resources Management

The HIA shall follow the entity's policies and procedures in determining the structure and staff establishment of the internal audit function to facilitate successful implementation of internal audit strategy and achievement of the internal audit plan.

The HIA should consider the following in managing the IAF's human resources;

- a. Organizational structure and complexity.
- b. Feedback from the Governing Body and senior management on the approach.
- c. Participation in recruitment activities as per established procedures.

2.5.3 Technological Resources

The IAF shall use appropriate technology such as audit management systems, Governance, Risk Management, and Control process mapping applications, data analytics and collaboration tools to improve its effectiveness and efficiency.

2.6 Communication and Stakeholder Relationships

Principle 11: Communicate Effectively

The HIA shall guide the IAF in communicating effectively with its stakeholders through building relationships, establishing trust, and enabling stakeholders to benefit from the results of internal audit services.

2.6.1 Building Relationships and Communicating with Stakeholders

The HIA should identify key stakeholders and categorise them in terms of influence and impact within the organisation. To build and maintain effective relationship with the stakeholders, the HIA should;

- a. Identify key stakeholders and their needs.
- b. Develop a stakeholder engagement plan which should be evaluated on a regular basis
- c. Assign responsibility for specific stakeholders to members of the internal audit team.
- d. Articulate the various engagement strategies.
- e. Build and maintain effective working relationships with each stakeholder.

2.6.2 Effective Communication

The HIA should be included in the organization's communication channels to keep current with major developments and planned activities that could affect the objectives and risks of the organization. Regular, ongoing communication with the Governing Body, key governance committees, senior management, and the internal audit function contributes to a common understanding of the organization's risks and assurance priorities and promotes adaptability to changes.

2.7 Audit Committee Secretary Roles

Audit Committee guidelines through gazette notice no. 2690 and 2691, requires that the HIA shall be the secretary to the committee. The HIA should support the Chairperson of the committee in identifying matters to be discussed. The specific responsibilities of the Audit Committee Secretary should include;

- a. Ensuring that new members receive appropriate induction training.
- b. Draft the audit committee's meeting agenda for the Chairperson's review.

- c. Draft the Audit Committee work plan for the Chairperson and members' review.
- d. Track the implementation of the approved Audit Committee work plan
- e. Facilitate timely distribution of the material for the audit committee meetings to members as per the committee charter.
- f. Write up the minutes of the audit committee meetings and reports;
- g. Advising the Committee on matters relating to governance, risk management and controls.
- h. Ensuring action points of governing body are taken forward between meetings.
- i. Preparation of Audit Committee reports.
- j. Any other role as guided by the Audit Committee.

2.8 Administrative Roles

The HIA should;

- a. Convene and facilitate periodic IAF staff meetings for effective implementation of internal audit services.
- b. Participate in management meetings and present IAF related reports such as the annual plan.
- c. Facilitate/participate in the procurement of goods, works and services directly related to provision of internal audit services.
- d. Facilitate utilization of leave by IAF staff as per the entity's leave management policies and procedures.
- e. Maintain IAF records, including reports and assets, as per the entity's policy and procedures.
- f. Participate in recruitment of IAF staff members
- g. Undertake performance evaluation of IAF staff members.

CHAPTER 3 – PERFORMING INTERNAL AUDIT SERVICES

3.1 Overview

This chapter provides information on the framework for engagement planning, conducting work, communicating engagement results and monitoring implementation of action plans. Internal audit services include providing assurance, advice, or both.

Assurance services are intended to provide confidence about governance, risk management, and control processes to the entity's stakeholders, especially the governing body and management. Through assurance services, internal auditors shall provide objective assessments of the existing conditions of an activity under review and a set of evaluation criteria.

Internal auditors may initiate advisory services or perform them at the request of the governing body or senior management. The nature and scope of advisory services may be subject to agreement with the party requesting the services and may include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services, providing training and facilitating discussions about risks and controls.

3.1.1 Topical Requirements

Topical Requirements are designed to enhance the consistency and quality of internal audit services related to specific audit subjects and to support internal auditors performing engagements in those risk areas. Internal auditors conform with the relevant topical requirements when the scope of an engagement includes one of the identified topics and sh remain abreast with new releases.

Topical Requirements strengthen the ongoing relevance of internal auditing in addressing the evolving risk landscape across industries and sectors.

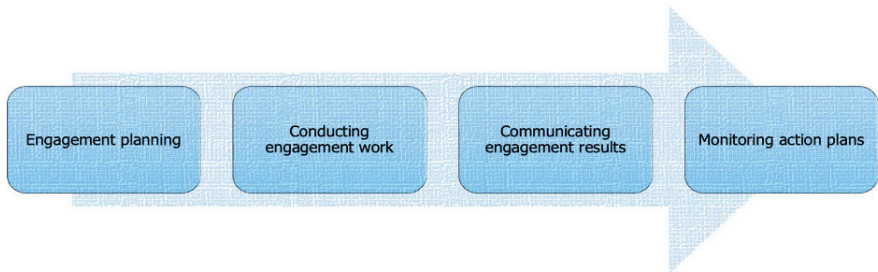
3.1.2 Global Guidance

Global Guidance supports the Standards by providing non-mandatory information, advice, and best practices for performing internal audit services. It is endorsed by the IIA through formal review and approval processes. Global Practice Guides provide detailed approaches, step-by-step processes, and examples on subjects including:

- a. Assurance and advisory services.
- b. Engagement planning, performance, and communication.

- c. Financial services.
- d. Fraud and other pervasive risks.
- e. Strategy and management of the internal audit function.
- f. Public sector.
- g. Sustainability.

Internal auditors should use global guidance in performing internal audit services and sh remain abreast with new releases. In undertaking internal audit services, the Internal Auditors shall adhere to the key steps outlined in Figure 4 below.



3.2 Engagement Planning

Principle 13 Plan Engagement Effectively

Internal auditors plan each engagement using a systematic, disciplined approach. Engagement planning starts with understanding the initial expectations for the engagement and the reason the engagement was included in the internal audit plan. When planning engagements, internal auditors shall gather information that enables them to understand the entity and the activity under review and to assess the risks relevant to it.

The plan shall consider the entity's strategies, objectives, and risks relevant to the engagement together with the supporting audit program/s and shall be approved by the HIA before commencement of the engagement and any changes that occur during the engagement.

An engagement plan shall:

- a. Define the objective of the engagement and management expectations.

- b. Establish the scope and timing of the engagement.
- c. Contain a risk assessment of the processes in scope.
- d. Define the resources required to undertake the engagement.
- e. Define audit steps to achieve the engagement objectives and adequately cover the scope i.e. engagement work program or audit program.
- f. Contain a communication plan detailing how the results of the engagement execution shall be communicated.

Project mobilization activities entails:

- a. Confirming that the audit is in the approved work plan and the resources are available.
- b. Assembling the audit team.
- c. Determining the scope and objectives.
- d. Determining audit delivery timelines
- e. Generating a list of preliminary requirements.
- f. Understand the process and operating environment by;
 - i. Documenting process flow.
 - ii. Undertaking business processes analysis to identify major changes in the process since the last time it was audited.
 - iii. Identifying emerging issues in the operating environment
 - iv. Assessing alignment to strategic objectives.

Engagement Risk Assessment entails:

- a. Identification and rating of risks and controls.
- b. Risks.
- c. Developing an engagement plan entails:
 - i. Document the engagement plan
 - i. Review and approval of the engagement plan by HIA

The engagement plan may be updated during the engagement phase and any changes shall be approved by HIA.

3.2.1 Engagement Communication

Engagement communications shall include initial, ongoing, closing, and final communications with the senior management of the activity under review. The type of engagement may affect the communications needed.

The extent of ongoing communication depends upon the nature and length of the engagement and may include:

- a. Announcing the engagement.

- b. Discussing the engagement risk assessment, objectives, scope, and timing.
- c. Requesting the information and resources necessary to perform the engagement.
- d. Setting expectations for additional engagement communications.
- e. Providing updates about the engagement progress, including governance, risk management, or control issues that require immediate attention and changes to the scope, objectives, timing, or length of the engagement.
- f. The engagement results, including findings, recommendations, and/or management's action plans to address the findings.
- g. The timing of and owner responsible for implementing recommendations and/or action plans.

Ongoing communication throughout the engagement between internal auditors and the management of the activity under review is essential for transmitting information that requires immediate attention and updating relevant parties about engagement progress or changes to the objectives or scope.

3.2.2 Engagement Risk Assessment

A detailed risk assessment be undertaken during the planning phase of the engagement to confirm that the initial objectives and scope are focused on the most important risks associated with the activity under review. The internal auditors shall consider if management has conducted a risk assessment and established procedures to manage the risks.

Internal Auditor should also assess and document the potential audit risks in relation with the specific audit engagement including the planned actions to mitigate those risks. These may include;

- a. Inadequate/ambiguous scope of the audit by the internal auditor;
- b. Conflict of interest may impair objectivity and undermine the audit results;
- c. The audit may not meet the expectations of the users;
- d. Inadequate audit testing and evidence hence incorrect audit conclusions;
- e. Lack of professional competency to keep up with emerging trends;
- f. Audit recommendations are not implemented;
- g. Lack of cooperation from audit clients;
- h. Poor time management by the audit team;

3.2.3 Engagement Objectives and Scope

The objectives and scope for assurance engagements are determined primarily by the internal auditors, whereas the objectives and scope for advisory engagements are typically jointly established by the internal auditors and the management of the activity under review.

Assurance engagements focus on providing assurance that the controls in place are adequately designed and operating to manage the risks that could prevent the activity under review from achieving its business objectives. The objectives of these engagements direct the priorities for testing the controls of processes and systems during the engagement. These include controls designed to manage risks related to:

- a. Assignment of authority and responsibility.
- b. Compliance with policies, plans, procedures
- c. Reporting accurate and reliable information.
- d. Effective and efficient
- e. Safeguarding assets.

Once the engagement objectives have been established, internal auditors should use professional judgement and consult with the engagement supervisor as necessary to determine the scope of engagement work. The scope should be broad enough to achieve the engagement objectives. When determining the scope, internal auditors should consider each engagement objective independently to ensure that it can be accomplished within the scope.

3.2.4 Evaluation Criteria

Adequate criteria are essential for identifying a difference between the desired state and the condition, which represents potential findings. Additionally, adequate criteria are necessary for determining the significance of the findings and reaching meaningful conclusions.

Examples of adequate criteria include:

- a. Internal (policies, procedures, key performance indicators, or targets for the activity).
- b. External (laws, regulations, circulars and contractual obligations).
- c. Authoritative practices (frameworks, standards, guidance, and benchmarks specific to an industry, activity, or profession).
- d. Established organizational practices.
- e. Expectations based on the design of a control.

- f. Procedures that may not be formally documented.

When evaluating the adequacy of the criteria, internal auditors shall determine whether the entity has established basic principles to define appropriate governance, risk management, and control processes. Internal auditors shall consider whether the entity has developed and clearly articulated its risk tolerance, including materiality thresholds for various departments and sections.

Internal auditors should inform the management of the activity under review of the criteria to be used during the engagement. The agreed-upon criteria shall be documented to preclude misinterpretation or challenge by the management of the activity under review.

3.2.5 Engagement Resources

Identifying and assigning resources when planning an engagement is handled by an internal auditor designated to lead and supervise the engagement and approved by the HIA. When planning engagements, internal auditors should consider the most efficient and effective application of available financial, human, technological, time, facilities and logistical resources.

Planning the engagement requires determining whether the available resources are appropriate and sufficient or additional resources are necessary to complete the engagement.

Where resource limitations interfere with the internal audit function's ability to achieve the engagement objectives, the engagement supervisor is responsible for escalating the concern to the HIA.

3.2.6 Engagement Work Program

When planning an engagement, internal auditors collect and organize information to create a work program. The engagement work program builds on the information gathered and developed during engagement planning and details the tasks and methodologies that will be used to achieve the engagement objectives and analyze and evaluate information as internal auditors develop engagement findings, recommendations, and conclusions.

Work performed during the planning phase shall be documented in workpapers and referenced in the work program. Work programs should include a place to add the name of the internal auditor who completed the work, the date the work was completed, and an indication of review and approval of the various tasks completed as the work is completed.

The level of analysis and detail applied during the planning phase varies by internal audit function and engagement. When sampling is used, the work program should include the sampling methodology, population, sample size, and whether the results can be projected to the population.

Evaluating the adequacy of the control design may be completed as part of engagement planning, because it helps internal auditors clearly identify key controls to be further tested for effectiveness. The evaluation of the adequacy of the control design should be documented in either the work program or a separate workpaper. The templates have been provided on PSASB website www.pasb.go.ke for guidance.

3.3 Conducting Engagement Work

Principle 14: Conduct Engagement Work

Internal auditors implement the engagement work program to achieve the engagement objectives. The HIA shall ensure each audit engagement has appropriate audit procedures for identifying, analysing, evaluating and documenting information required for the Internal Audit process to be systematic and disciplined. Internal auditors shall implement the work program to achieve the engagement objectives by gathering information and performing analyses and evaluations to produce evidence. This will enable internal auditors to:

- a. Provide assurance and identify potential findings.
- b. Determine the causes, effects, and significance of the findings.
- c. Develop recommendations and/or collaborate with management on the action plans.
- d. Develop engagement conclusions

3.3.1 Audit Opening/Entrance Meeting

When internal auditors have conducted an engagement risk assessment, they should communicate the results to the management of the activity under review. They also should communicate the initial engagement objectives and scope in the entrance meeting.

The HIA or the designated Internal Auditor should liaise with the management of activity under review to ensure that key staff are available to attend the Audit Opening/Entrance Meeting. The opening/entrance meeting agenda should be shared with the management of the activity under review before the meeting.

3.3.2 Gathering Information for Analyses and Evaluation

When gathering information to complete each step in the engagement work program, internal auditors shall focus on the information that is relevant to the engagement objectives within the engagement scope.

Procedures to gather information for analyses may include:

- a. Interviewing individuals involved in the activity.
- b. Administering surveys
- c. Directly observing a process
- d. Performing a walk-through.
- e. Obtaining confirmation or verification of information from an individual who is independent of the activity under review.
- f. Inspecting or examining physical evidence such as documentation, inventory, or equipment.
- g. Directly accessing organizational systems to observe or extract data.
- h. Working with system users and administrators to obtain data.

3.3.3 Audit Sampling

Audit sampling is the application of audit tests/procedures to less than 100% of items within a class of transactions (population). Audit sampling is used to provide factual evidence and a reasonable basis to draw conclusions about a population from which a sample is selected.

In order to select an appropriate sample, it is important to define the population of data. This will be influenced by the period that is covered by the audit. There are a number of methods that can be used to select a sample to try and ensure Internal Auditors cover an appropriate cross section of the population. These include, amongst others, the following:

- a. Random sampling.
- b. Systematic (interval) sampling.
- c. Stratified sampling.
- d. Attribute sampling.
- e. Variable sampling.
- f. Discovery sampling.
- g. Judgmental sampling.

When gathering information, internal auditors should consider whether to test a complete data population or a representative sample. Using data analysis software facilitates the ability to test complete or targeted data populations. If internal auditors choose to select a sample, they shall use

appropriate sampling method(s) to ensure that the sample is a representative of the entire population.

The Internal Auditors will consider the following factors when deciding on the sample size:

Engagement/audit objectives: which may include assessing control's design adequacy, if the control has been operating effectively, quantifying the impact of control weakness and compliance level.

- a. Population quality.
- b. Population size
- c. Risk and materiality
- d. Available resource
- e. The proficiency of the Internal Auditors in applying the tools and techniques
- f. Previous assessments outcome
- g. Sampling risk

Although there are no established rules about the sample size, In applying the sampling guide, the Internal Auditors should apply their professional judgement based on the risk of the area under review and the engagement objectives to determine if they need to increase the sample size.

Audit workpapers should include sufficient detail to clearly describe the sampling objective and the sampling process used. The workpapers should include the source of the population, size of the population, sample size, the sampling method used, sampling period and items sampled.

Sampling can have several limitations, including:

- a. Sample size.
- b. Complete population list.
- c. Minority representation.
- d. Sampling bias.
- e. External validity.
- f. Standardized patterns.

3.3.4 Analyses and Potential Engagement Findings

The engagement work program may include a list of specific analyses to be conducted. The following analysis techniques may be used;

- a. Inspection.
- b. Re-performance.
- c. Vouching.
- d. Tracing.

- e. Computation.
- f. Confirmation.
- g. Analytical reviews.

Data analytics examining data sets to draw conclusions about the information they contain. With the increase in the volume of data being generated by entities (Big Data), data analytics is being adopted by Internal Auditors to enable them to develop recommendations that provide insight and foresight.

The analyses should yield a meaningful comparison between the evaluation criteria and the condition. When the analyses indicate a difference between the criteria and the condition, subsequent engagement procedures should be applied to determine the cause and effect of the difference and significance of the potential findings.

3.3.5 Evaluation of Findings

To develop engagement findings, internal auditors compare the established criteria to the existing condition in the activity under review. If there is a difference between the two, internal auditors are required to investigate the potential finding further. The evaluation should explore:

- a. The root cause of the difference.
- b. How the impact of the difference may be quantified.

To determine the significance of a finding, internal auditors identify and evaluate existing controls for design adequacy and effectiveness, then determine the level of residual risk, which is the risk that remains despite having controls in place. Internal auditors are required to document and communicate audit findings.

The impact and likelihood of the risk in line with the entity risk management framework.

3.3.6 Recommendations and Action Plans

Internal auditors should promptly discuss the findings and potential recommendations or action plans with the management authorized to make and oversee changes to the activity under review. If a specific corrective action is identified that addresses a finding, internal auditors may communicate it as a recommendation.

- a. If the internal auditor and the management of the activity under

review disagree about the engagement results, the HIA should work with senior management to facilitate a resolution. If not resolved, the response from management may be attached to the final communication or made available upon request.

- b. 3.3.7 Exit Meeting/Conference (Closing communication).
- c. Internal auditors shall have a closing communication (also called an "exit meeting/conference"), which is an opportunity for internal auditors, the management of the activity under review, and relevant staff to finalize the engagement results before issuing a final communication.

This formal debriefing helps ensure;

- a. There are no "surprises" with respect to reporting results.
- b. There have been no misunderstandings or misinterpretations.
- c. The auditor has considered all relevant evidence and becomes aware of any corrective action that has already been initiated by the management of the activity under review.

Management action plans may not be fully developed before the closing communication, but management may have ideas about the actions it will take to address the findings. Even if management has not completely developed action plans, ideas can be discussed and evaluated. After the discussion, management can confirm its action plans, the expected timing of implementation, and the staff responsible for implementing the actions.

In compliance with PFM r. 171(3) (a) and 164 (3) (a) of National and County Government respectively, requires that when updating the management of the progress of an audit assignment, the internal auditor shall give an oral preliminary report which shall be confirmed in writing within seven (7) days.

The HIA shall ensure an exit meeting/conference is held at the end of the engagement to discuss significant observations and proposed recommendations with the audit client. The exit meeting/conference provides an opportunity for:

The Internal Auditor: To obtain feedback from the audit client on the accuracy of the audit results.

Audit client: To clarify and agree on the audit findings and recommendations before they are put in the audit report; propose alternative recommendations that are more practical; provide more information where the same had not been provided before; provide information on the management action

plan to address the audit recommendations; and communicate areas where they accept the existing risks and justification for the same.

HIA shall ensure exit meeting/conferences are planned for well to ensure the management and staff in the function that are key in implementing recommendations are available to attend.

Besides the key audit issues, the exit meeting/conference should cover the tentative timetable for the issuance of the draft audit report and what management would be expected to do after the receipt of the draft report which is to provide written comments on the report and submit them to the auditor within the prescribed timeframe.

3.3.8 Engagement Conclusions

The HIA will guide internal auditors on rating scale supporting the engagement conclusions.

For example, a scale may indicate satisfactory, partially satisfactory, needs improvement, or unsatisfactory depending on the internal auditors' assessments. The HIA may customise the rating criteria based on:

- a. Level of achievement of core mandate targets
- b. Recurring audit findings.
- c. Level of implementation of previous findings.
- d. Control effectiveness or
- e. Risk rating of individual findings as demonstrated in the evaluation of findings section.

3.3.9 Engagement Documentation

Documentation provides the basis for supervising individual internal auditors and allows the HIA and others to evaluate the quality of the internal audit function's work. This also demonstrates conformance with the Standards.

At a minimum, engagement documentation shall include:

- a. Date or period of the engagement.
- b. Engagement risk assessment.
- c. Engagement objectives and scope.
- d. Work program.
- e. Description of analyses, including details of procedures and source(s) of data.
- f. Engagement results.
- g. Names or initials of the individuals who performed and supervised the work.
- h. Evidence of communication to appropriate stakeholders.

Workpapers may be organized according to the structure developed in the work program and cross-referenced to relevant pieces of information. Templates or software may be used for developing workpapers and creating a system for retaining the documentation.

Planning Documentation

Process map, flowchart, or narrative descriptions of key processes.

- a. Summaries of interviews conducted, or surveys issued.
- b. Risk and control matrix.
- c. Details of tests conducted and analyses performed.
- d. Conclusions, including cross-referencing to the workpaper on audit findings.
- e. Proposed follow-up engagement work to be performed.
- f. Internal audit final communication with management responses.

The following format of workpapers may be adopted:

- a. Index or reference number.
- b. Title or heading that identifies the activity under review.
- c. Date or period of the engagement.
- d. Scope of work performed.
- e. Objectives for obtaining and analysing the data.
- f. Source(s) of data covered in the workpaper.
- g. Description of population evaluated, including sample size and method of selection used to analyse data (testing approach).
- h. Name of the internal auditor(s) who performed the engagement work.
- i. Review notes and name of the internal auditor(s) who reviewed the work.
- j. Conclusions including cross-referencing to the workpapers on audit observations.
- k. Proposed follow-up engagement work to be performed.

The HIA is responsible for custody of work papers and the retention is guided by relevant regulatory requirements and entity policies and procedures. Internal auditors are required to comply with relevant laws and regulations in handling data.

The templates have been provided on PSASB website www.pasb.go.ke for guidance.

3.4 Communicate Engagement Results and Monitor Action Plans

Principle 15: Communicate Engagement Results and Monitor Action Plans
Internal auditors communicate the engagement results to the appropriate parties and monitor management's progress towards the implementation of recommendations or action plans.

3.4.1 Final Engagement Communication

The HIA shall be responsible for reviewing and approving final audit reports before they are issued to the management of the activity under review, accounting officer, governing body or any other appropriate recipient. The final communication shall be:

- a. Accurate.
- b. Objective.
- c. Clear.
- d. Concise.
- e. Constructive.
- f. Complete.
- g. Timely.

3.4.2 Errors and Omissions

If a final engagement communication contains a significant error or omission, the HIA shall communicate corrected information promptly to all parties who received the original communication. Where the errors or omissions are significant (i.e. relative importance within the context of what is being considered) the HIA shall:

- a. Establish the cause of the errors or omissions and how to prevent such occurring in future engagements.
- b. Establish the most appropriate way to communicate the corrected information to the recipients of the original final engagement report
- c. Ensure the corrected final audit report provides information on: what has been corrected; cause of the error or omission; and strategies for HIA to prevent such causes from recurring in future audits.

The templates have been provided on PSASB website www.pasb.go.ke for guidance.

3.4.3 Communicating the Acceptance of Risks

The HIA gains an understanding of the risks and risk tolerance through discussions with the governing body and senior management, relationships and ongoing communication with stakeholders, and the results of internal audit services. This understanding provides the HIA with perspective about the level of risk the considers acceptable.

The communication should include discussions and actions taken, including a description of risk, the reason for concern, management's reason for not implementing internal auditors' recommendations or other actions, the name of the individual responsible for accepting the risk, and the date of discussion. Documenting and communicating acceptance of risk that exceeds the risk tolerance should be in the report to the governing body.

The HIA may establish that management has taken unacceptable level of risk by reviewing management's response to engagement findings and monitoring management's progress to implement recommendations and action plans. When the HIA concludes that management has accepted a level of risk that exceeds the entity's risk appetite or risk tolerance, the matter shall be discussed with management.

When risks exceed the risk appetite, impacts may include:

- a. Harm to the entity's reputation.
- b. Harm to the entity's employees or other stakeholders.
- c. Significant regulatory fines, limitations on business conduct, or other financial or contractual penalties.
- d. Material misstatements.
- e. Conflicts of interest, fraud, or other illegal acts.
- f. Significant impediments to achieving strategic objectives.

3.4.4 Confirming the Implementation of Recommendations or Action Plans

The HIA shall maintain a system to monitor the implementation of action plans and establish a follow-up process to ensure that management has either effectively implemented action plans or accepted the risk of not taking action. The HIA should determine the criteria for closure of implemented action plans.

Internal auditors may use a software program, spreadsheet, or system to track whether management's action plans are implemented according to the established timelines. The tracking system may indicate whether action plans are Closed [fully implemented, No longer applicable], open [Partially or not commenced] or past due [Partially or not commenced] and provides a useful tool for internal auditors to communicate with the governing body and senior management.

If management decides on an alternative action plan and internal auditors

agree that the alternative plan is satisfactory or more effective than the original action plan, then progress on the alternative plan should be tracked until completion.

The templates have been provided on PSASB website www.psasb.go.ke for guidance.

3.4.5 Quarterly & Annual Internal Audit Reports

In compliance with PFMR r. 173(2) and 166(2) of the National and County Government respectively, and in addition to issuing engagement reports, the HIA shall issue quarterly and annual audit reports to the Accounting Officer and the Audit Committee. The quarterly report highlighting the significant observations of assurance engagements shall be submitted within 14 days after the end of a quarter.

The HIA will maintain a database of significant observations/findings and respective recommendations and management action plan to enable the HIA to prepare the quarterly and annual reports; and to follow-up implementation of recommendations.

3.4.6 Internal Audit Quarterly Reports

The quarterly reports will include information on:

- a. Work performed in comparison with the approved Risk Based Annual Work Plan;
- b. Key issues emerging from Internal Audit work.
- c. Management action plan to key audit findings and recommendations
- d. Major limitations affecting the achievement of Internal Audit objectives.
- e. A report on cooperation between internal audit and other assurance providers.
- f. Internal and External Quality Assurance reports on the Internal Audit function if any

3.4.7 Internal Audit Annual Reports

The HIA shall prepare an annual report that consolidates the quarterly audit assurance reports prepared by the Internal Audit function.

The annual reports will include information on:

- a. Overall status of governance, risk management and controls: this summarizes the quarterly reports.
- b. Other assurance providers' findings and status of implementation of corrective actions.

- c. Adherence to Internal Audit Charter: assurance that the IAF adhered to the entity Internal Audit Charter, Standards, entity Internal Audit Policy & Procedures Manual and relevant laws and regulations. The HIA can report on factors that impair the independence or objectivity of IAF and corrective action.
- d. Value addition: audit client satisfaction rating; number of improvements in processes and systems arising from Internal Audit work; number of committees and task forces audit is involved in (advisory services); amount of identified cost savings or revenue increase due to Internal Audit work; and number of innovations arising from Internal Audit work.
- e. Resources: Financial, Human, and Technological.
- f. Quality Assurance and Improvement Program: results of internal or external quality assessments.
- g. Organizational independence of the Internal Audit function
- h. Conformance with the Standards, compliance with relevant laws, and action plans to address any significant conformance/noncompliance issues.
- i. Management's response to risk that, in the HIA's judgment, may be unacceptable to the entity.

The templates have been provided on PSASB website www.pasb.go.ke for guidance.

CHAPTER 4 – PERFORMANCE MANAGEMENT OF INTERNAL AUDIT FUNCTION

4.1 Overview

This Chapter covers Internal quality assessments, External quality assessments, Performance management and performance measurement as per the requirements of relevant laws, regulations, Guidelines and IPPF 2024. It has been reinforced by Quality Assurance and Improvement Programme (QAIP) Guidelines for Internal Audit Functions across the Public Sector as issued by PSASB.

4.2 Quality Assurance and Improvement Program

Principle 8: Overseen by the Board

The Board oversees the internal audit function to ensure the function's effectiveness.

Principle 12: Enhance Quality

The chief audit executive is responsible for the internal audit function's conformance with the Global Internal Audit Standards and continuous performance improvement.

The QAIP documents and defines a systematic and disciplined approach to the quality assessment process, including how to accomplish the assessments and define the scope. The work of Internal Audit shall be controlled at each level of operation to ensure that a continuously effective level of performance is being maintained. The QAIP covers all aspects of the internal audit function and enables:

- a. Evaluation of IAF conformance with the IPPF;
- b. Compliance with the laws, regulations, policies, guidelines and the Internal Audit Charter;
- c. Assessment of the IAF conformance to good practices of the Internal Auditing profession;
- d. Assessment of IAF efficiency and effectiveness;
- e. Assessment of the value added by the IAF; and
- f. Identifies opportunities for improvement.
- g. The QAIP includes two types of assessments:
 - i. Internal quality assessments.
 - ii. External quality assessments.

4.2.1 Internal Quality Assessment

This refers to self-assessment of the Internal Audit Function to determine

its effectiveness in relation to the performance objectives. It entails ongoing monitoring and periodic self-assessment.

4.2.1.1 Ongoing Monitoring

This shall involve the day-to-day supervision, review, and measurement of the IAF. Ongoing monitoring shall be incorporated into the routine policies and practices used to manage the IAF and includes the processes, tools, and information necessary to evaluate conformance with the Standards and compliance with the laws relevant to internal auditing.

The IAF's progress toward performance objectives, conformance with the Standards and compliance with the relevant laws, regulations, guidelines and Internal Audit Charter will be monitored through methodologies such as supervisory reviews of engagement planning, workpapers, and final communications to identify weaknesses or areas in need of improvement and action plans to address them.

Ongoing monitoring may further identify opportunities to improve the IAF. In such cases, the HIA may address these opportunities by developing an action plan. On-going monitoring shall include:

- a. Engagement supervision.
- b. Audit client feedback/survey.
- c. Engagement completion Review.
- d. Post-engagement review.
- e. Engagement Supervision

The HIA has the overall responsibility of providing the conclusion and opinion of each audit engagement. This requires the HIA to ensure all audit engagements are properly supervised from planning to communicating results to ensure:

- a. the engagement work program is fully implemented to achieve the engagement objectives;
- b. management expectations are met;
- c. quality is maintained which involves adherence to the procedures in this Manual and conformance to Standards;
- d. establish if there are any scope limitations; and
- e. engagement results are fully supported.
- f. Ensuring designated auditors collectively possess the required knowledge, skills, and
- g. other competencies to perform the engagement.
- h. Providing appropriate instructions while planning the engagement

and approving the engagement work program.

- i. Determining the engagement work papers provide sufficient support for engagement observations, conclusions, and recommendations
- j. Ensuring engagement communications are accurate, objective, clear, concise, constructive, and timely.
- k. Ensuring consistent application of Due Professional Care and judgement.
- l. Confirming that the necessary consultation with audit client were carried out, recorded and that differences were resolved.
- m. Ensuring that all significant risk issues, observations and concerns raised (including possible irregularities) during the audit have been dealt with appropriately.

The HIA may delegate the supervision responsibility to the Lead Internal Auditor who should be an experienced Internal Auditor. Supervision may include setting expectations, encouraging communications among team members throughout the engagement, reviewing and timely signing off on work papers.

Supervision should commence during engagement planning and ends when the results of the engagement have been communicated to the audit client and shall involve the following interrelated phases;

- a. In engagement planning, supervision involves review and approval of the engagement plan. When performing engagement, supervision involves ensuring the engagement work program is fully implemented; any amendments of the engagement work program are approved; results of the audit steps are recorded in the work papers; work papers are reviewed and signed off.
- b. During communication of engagement results, supervision involves reviewing the accuracy, objectivity, clarity, constructiveness, completeness and conciseness of information contained in the report and timely issuance of the audit report.
- c. The lead Internal Auditor or an appointed reviewer shall review the working papers on an on-going basis as they are prepared by the Internal Audit team and any discrepancies or information gaps identified and rectified. On completion of field work and before the issuing of the draft report, the lead Internal Auditor shall issue the reviewed audit file to the HIA for further view.
- d. Irrespective of the person performing the first and second stage review, the HIA must review and sign all documents issued to the audit client including Internal Audit Planning Memo, draft Internal Audit

report and final Internal Audit report.

The HIA shall ensure there is documentary evidence of engagement supervision. This may include: review notes/sheet and responses to the same (which includes updating the appropriate work papers); and reviewer initials and dating each work paper after it is reviewed.

Review Notes Template has been provided on PSASB website www.pasb.go.ke for guidance.

Audit Client Satisfaction Survey

The HIA shall ensure that an audit client satisfaction survey is conducted for each engagement to obtain feedback from internal audit stakeholders regarding the efficiency and effectiveness of the internal audit team.

A meeting should be scheduled with the audit client to discuss any negative feedback contained in the completed audit client satisfaction survey. The issues raised should also be discussed at the team debriefing, even if the audit client declines to meet in this regard.

Audit client Satisfaction Survey Template has been provided on PSASB website www.pasb.go.ke for guidance.

Engagement Completion Review

The HIA shall ensure an Engagement Completion Checklist is completed for each engagement. The checklist is important in assisting the Internal Audit team in ensuring that all required activities have been undertaken, and this Manual has been adhered to in planning, executing, reporting and follow-up engagements; and the required documentation is in place.

The completion checklist must be signed off by the relevant lead Internal Auditor throughout the engagement to ensure that it is accurately completed, and the working paper file is complete. The HIAs must also sign-off the checklist as an indication that they are satisfied that the audit working paper file is accurate and complete at the completion of the engagement exercise.

An Engagement Completion Checklist Template has been provided on PSASB website www.pasb.go.ke for guidance.

Post-Engagement Review

The HIA may select a sample of engagements from a particular timeframe and conduct a review to assess conformance with the IPPF, 2024 and compliance with legal provisions. These reviews are conducted by the Internal Auditor who was not involved in the respective engagement. The Auditor undertaking this review may use the Engagement Completion Checklist, Template with necessary modifications.

4.2.1.2 Periodic Self-assessments

This provides a more holistic, comprehensive evaluation of the IAF in relation to the Standards, laws, regulations, policies and guidelines. Periodic self-assessments address conformance with every Standard and compliance with the relevant laws, regulations, guidelines, policies and Internal Audit Charter, whereas ongoing monitoring may focus on the Standards relevant to performing engagements.

Periodic self-assessments will be conducted by senior members of the IAF, a dedicated quality assurance team, individuals within the IAF who have attained the Certified Internal Auditor® designation or have extensive experience with the Standards, or individuals with audit competencies from elsewhere in the entity.

The individual or team conducting the periodic self-assessment may interview and/or conduct survey and shall evaluate:

- a. IAF's conformance with Standards
- b. The adequacy of the IAF's methodologies.
- c. How well the IAF supports the achievement of the entity's objectives
- d. The quality of internal audit services performed and supervision.
- e. The degree to which stakeholder expectations are met and performance objectives are achieved.
- f. Extent of compliance with the laws, regulations, guidelines, policies and Internal Audit Charter.
- g. An Self-Assessment shall be undertaken in line with the QAIP Manual and the prescribed templates as issued by PSASB.

The templates have been provided on PSASB website www.pasb.go.ke for guidance.

4.2.2. External Quality Assessment

This refers to the professional assessment of the Internal Audit Function by a professionally recognized body or institution external to the entity to determine its effectiveness in relation to the performance objectives.

The HIA shall develop a plan for an external quality assessment and discuss the plan with the governing body. The HIA shall collaborate with the governing body and senior management to determine the scope and frequency of the external quality assessment. The governing body shall review and approve the plan for the performance of the external quality assessment.

4.2.2.1 Full External Assessment

The external assessment shall be performed by a qualified, independent assessor or assessment team. The HIA shall ensure that there is at least one person who holds an active Certified Internal Auditor® designation in the assessment team. In addition, other important qualifications of the assessment team that will be considered include:

- a. Experience with and knowledge of the Standards and leading internal audit practices.
- b. Experience as a HIA or comparable senior level of internal audit management.
- c. Experience in the entity's industry or sector.
- d. Previous experience performing external quality assessments.
- e. Completion of external quality assessment training recognized by The Institute of Internal Auditors.
- f. Attestation by assessment team members that they have no conflicts of interest, in fact or appearance.

Care should be exercised to ensure that independence and objectivity are not impaired and that all team members are able to exercise their responsibilities fully. The HIA should consider potential impairments to the independence of assessors driven by past, present, or anticipated future relationships with the entity, its staff, or its IAF.

- a. External audits of financial statements.
- b. Assistance to the IAF.
- c. Personal relationships.
- d. Previous or planned participation in internal quality assessments.
- e. Advisory services in governance, risk management, and control processes; financial reporting; or other areas.
- f. Appropriate safeguards shall be established to enhance the independence of the assessor by taking the following into account;
- g. Individuals from another department of the entity, shall not be considered independent for the purpose of conducting an external assessment.

- h. Likewise, individuals from a related entity (for example, a parent ministry, or an entity with regular oversight, supervision, or quality assurance responsibilities with respect to the subject organisation) shall not be considered independent.
- i. IAFs in separate entities within the same tier of government shall not be considered independent if they report to the same HIA.
- j. Reciprocal peer assessments between two entities shall not be considered independent. However, assessments rotated among three or more peer entities— entities within the same industry or sector may be considered independent.
- k. The external quality assessment should include a comprehensive review of the adequacy of the IAF's:

Conformance with the Global Internal Audit Standards.

- a. Mandate, Internal Audit Charter, Strategy, methodologies, processes, risk assessment, and internal audit plan.
- b. Compliance with applicable laws and/or regulations.
- c. Performance criteria and measures as well as assessment results
- d. Competencies and due professional care, including the sufficient use of tools and techniques, and focus on continuous development.
- e. Qualifications and competencies, including those of the HIA role, as defined by the entity's job description
- f. Integration into the entity's processes, including the relationships among those involved in positioning the internal audit function to operate independently.
- g. Contribution to the entity's governance, risk management, and control processes.
- h. Contribution to the improvement of the entity's operations and ability to attain its objectives.
- i. Ability to meet expectations articulated by the governing body, senior management and stakeholders.
- j. Optimal staffing of internal audit function.
- k. External quality assessment reports include the expression of an opinion or conclusion on the results. In addition to concluding on the Internal Audit function's overall degree of conformance with the Standards, the report may include an assessment for each standard and/or standard series. The external assessment report may adopt the following rating scales to show the degree of conformance:

Full Achievement or Conformance: all related requirements were satisfied.

General Achievement or Conformance: one or more discrepancies, or gaps, have been noted, but the intent of the standard or principle was met. **Partial Achievement or Conformance:** one or more discrepancies have been noted and the intent of the standard or principle was not met, but the extent of the necessary corrective action is relatively minor in the assessors' judgment.

Non achievement or Nonconformance: one or more discrepancies have been noted, the intent of the standard or principle was not met, and the extent of the necessary corrective action is relatively significant in the assessors' judgment.

Quality assessment teams and internal auditors are encouraged to make reference to the 2024 Quality Assessment Manual issued by the Institute of Internal Auditors and the Public Sector Quality Assurance and Improvement Program Guidelines provided on PSASB website www.psasb.go.ke for guidance.

The external assessor will also provide an Opinion as to compliance with laws, regulations, policies and guidelines. In undertaking the assessment, the External Assessor will be required to identify areas of successful internal audit practices that have been adopted by the entity as well as the notable gaps as to conformance with the Standards and compliance with Laws and Regulations.

4.2.2.2 Self-assessment with independent validation

The requirement for an external quality assessment may also be met through a self-assessment with independent validation. A self-assessment with independent validation (SAIV) shall include:

- a. A comprehensive documented internal assessment that emulates the external quality assessment process in terms of evaluating the IAF's conformance with the Standards and compliance with relevant laws, regulations and policies. The HIA shall use the tools and techniques applicable in the external quality assessment
- b. Validation by an independent external quality assessor or assessment team. The independent validation should establish that the internal assessment was conducted completely and accurately. The validator should meet the independence and qualification criteria of independent assessor or assessment team as specified in the Standard.
- c. Benchmarking, leading practices, and interviews with key stakeholders, such as governing bodies, management, external and internal auditors.

4.2.2.3 Peer Review/Assessment

This refers to an independent assessment of the IAF by experts within the same industry or sector. Peer review is undertaken by at least three independent entities, in which each IAF is assessed by a team from the other entities. It is most preferred if budgetary constraints are an issue or where the IAF is small. Typically, a small internal audit function will have one auditor.

Nevertheless, peer reviewers are required to meet the independence and qualifications criteria specified in the Standard. The following briefly outlines some of the key considerations:

All members of the assessment team who perform the external assessment are to be independent of that entity and its internal audit staff. Real, potential, and perceived conflicts of interest should be considered.

Within the public sector, individuals working in separate internal audit functions in a different entities/county within the same tier of government may be considered independent for purposes of conducting external assessments, as long as they do not report to the same HIA.

Two entities may not review each other mutually. Reciprocal external assessment teaming arrangements between three or more entities (e.g., within an industry or other affinity group, regional association, or government departments) may be structured in a manner that achieves the independence objective.

The approach on peer review may either be Full External Assessment (FEA) or Self-Assessment with Independent Validation (SAIV). Peer reviewers shall meet the requirements of the external assessors as stipulated in the Standard. Circumstances for undertaking peer review include;

Resource limitations: There are higher costs associated with a full external assessment or SAIV as compared to peer review. Peer review may also be used as a precursor to help prepare for SAIV or FEA

Where the entities participating in the peer review have undergone a full external assessment.

However, the benefit of a full external assessment comes from a potentially broader scope than a self-assessment with independent validation or peer review and perhaps a more robust assessment process being performed by an external team.

4.3 Reporting on the Quality Assurance and Improvement Program

Principle 8: Overseen by the Board

The Board oversees the internal audit function to ensure the function's effectiveness.

At least annually, HIA shall communicate the results of the quality assessment to the governing body, senior management and national/county treasury. Communications should include:

- a. The IAF's conformance with the Standards (This includes reasons why the governing body and/or senior management have not conformed with standards on essential conditions)
- b. The IAF's achievement of performance objectives.
- c. Compliance with laws and/or regulations, policies, and guidelines relevant to internal auditing.
- d. Action Plans to address the IAF's deficiencies and opportunities for improvement. The action plan must include proposed timelines.

If non-conformance with the Standards affects the overall scope or operation of the IAF, the HIA shall disclose to the governing body and senior management the non-conformance and its impact. Internal Auditors are encouraged to make reference to the Templates provided in the Public Sector Quality Assurance and Improvement Guidelines issued by PSASB.

4.4 Performance Measurement

This is the process of collecting, analysing and reporting on the effectiveness and efficiency of the IAF. The HIA should identify a set of focused performance objectives that are reported to the governing body and senior management while maintaining a more comprehensive set of performance objectives for managing the internal audit function.

- a. Stakeholder expectations
- b. Alignment to entity's goals and objectives
- c. Resource needs
- d. Financial and operational efficiency
- e. Learning and development

After identifying the performance objectives, the HIA should establish targets, both quantitative and qualitative, to track progress toward meeting the performance objectives. The HIA should have a methodology in place to periodically validate the accuracy of the measures being reported and raise performance expectations.

The HIA should obtain feedback from the governing body and senior management and develop an action plan to address issues and opportunities for improvement. The action plans should be tracked by the HIA and communicated with the governing body and senior management. Examples of performance categories to consider when establishing performance objectives and measures may include:

- a. Coverage of engagement objectives expected to be reviewed according to the internal audit mandate.
- b. The extent to which the internal audit conclusions address significant goals and objectives of the entity.
- c. The percentage of recommendations or action plans completed by management that result in desired outcomes, as monitored by the IAF.
- d. Percentage of the entity's key risks and controls reviewed.
- e. Stakeholder satisfaction regarding understanding of engagement objectives, timeliness of engagement work, and clarity of engagement conclusions.
- f. Percentage of annual internal audit plan completed.
- g. Balance of assurance and advisory engagements in the internal audit plan relative to the internal audit strategy.
- h. External quality assurance reviews confirming IAF conformance with the Standards.
- i. Quality assurance reviews confirming that adequate competencies are in place to perform the scheduled internal audit engagements. The HIA may adopt the appropriate Competency Framework such as Competency Framework for the Public Service and the IIA Global Internal Audit Competency Framework.
- j. Internal auditor learning and development plans linked to the internal audit Strategic Plan and the entity's emerging risks.
- k. The level of professional certification relevant to internal auditing held by its staff.
- l. Performance Measurement Matrix template has been provided on PSASB website www.pasb.go.ke for guidance. (The template has developed metrics from Appendix C of the Practice Guide: Measuring effectiveness and efficiency of IAF)

The HIA must report the QAIP and Performance Measurement results to the Governing Body and the Senior Management.

4.5 Performance Management

A Performance Management System (PMS) is a systematic process for get-

ting better results from the IAF and staff by managing performance within an agreed framework of planned goals, objectives and standards. It is a set of tools, processes and actions that allows for maximisation of the performance of the internal audit staff. It also provides internal audit staff with:

- a. a clear understanding of job expectations;
- b. regular feedback about performance;
- c. advice and steps for improving performance;
- d. rewards for good performance; and
- e. sanctions for poor performance.

The overall goal is to measure audit staff performance and ultimately the achievement of intended results for the IAF. The Head of internal audit shall be appraised by the authorised officer and the performance evaluation reviewed by the audit committee.

4.6 Performance Contracting (PC)

This is a negotiated process in which entities set their performance targets based on their mandates, functions and strategic objectives. Art. 232 of the Constitution of Kenya, 2010 requires public service to be guided by the following principles and values which form the basis for PC in the performance of functions;

- a. High standards of professional ethics;
- b. Efficient, effective and economic use of resources;
- c. Responsive, prompt, effective, impartial and equitable provision of services;
- d. Involvement of the people in the process of policy making;
- e. Accountability for administrative acts;
- f. transparency and provision to the public of timely, accurate information;
- g. Fair competition and merit as the basis of appointments and promotions; Representation of Kenya's diverse communities; and
- h. Affording adequate and equal opportunities for appointment, training and advancement, at all levels of the public service. The HIA shall be guided by the Performance Management System applicable to the entity. The HIA shall negotiate a Performance Contract that is appropriate for delivery of the Internal Audit Mandate with both the administrative as well as the functional supervisor. In developing and negotiating the Performance Contract, the HIA shall be guided by the following frameworks;

National Government entities and State Corporations -the Public Service

Commission (Performance Management) Regulations, Annual National Performance Management Guidelines, Code of Governance for respective entities and the entity-specific Human Resource Policy and Procedures Manual.

Constitutional Commissions and Independent Offices -the entity-specific Acts and Regulations, Entity-Specific Performance Management Guidelines, and Human Resource Policy and Procedures Manual.

County Governments and its entities -County-specific legislation on performance management, nationally applicable guidelines on performance management (Sec. 113(3) and 115(2) of the County Governments Act, 2012), County Governments Performance Contracting Guidelines for the respective year and the County-Specific Human Resource Policies and Procedures Manual.

The performance targets may include the following:

- a. Development and implementation of internal audit charter, standard operations procedures and policies Manual.
- b. Annual review of the internal audit charter and periodic review of the policies and procedures.
- c. Development and implementation of a three-year strategic plan.
- d. Development and implementation risk based internal audit annual work plan.
- e. Submission of Quarterly Assurance and Advisory reports to senior management and Audit Committee.
- f. Submission of Quarterly Follow up reports to senior management and Audit Committee.
- g. Establishment and Implementation of quality assurance improvement program.
- h. Submission of Quarterly report on implementation of recommendations on quality assurance improvement program.
- i. Reporting on Risk management on Internal Audit directorate/department/division to senior management and the Audit Committee.
- j. Development and implementation of a combined assurance map.
- k. Undertaking and analysing the end of audit engagement surveys and implementation of the action points.
- l. Development and implementation of a stakeholder's engagement plan.
- m. Undertaking and analysing independent stakeholder's satisfaction survey and implementation of the action points.

- n. Undertaking of financial reporting reviews.
- o. Review of whistle blowing arrangements.
- p. Supporting development and implementation of the audit committee calendar.
- q. Annual development and implementation of the departmental performance targets.
- r. Formulating and implementing Internal Audit training plan aligned to the Internal Audit competency framework.
- s. Ensuring annual signing of the IIA code of ethics by all internal audit staff.
- t. Implementation of Internal Audit budget and reporting on the utilization within a Financial Year.

IAFs are encouraged to adapt parameters provided in the HIA performance evaluation tool and guideline developed by PSASB. HIA Performance Evaluation tool has been provided on PSASB website www.pasb.go.ke for guidance.

4.7 Staff Performance Appraisal System

Staff Performance Appraisal system (SPAS) is predicated upon the principle of work planning, setting of agreed performance targets, feedback and reporting. It is linked to other human resource systems and processes including staff development, career progression, placement, rewards and sanctions.

The HIA under Performance Contracting shall ensure that the Performance Contract is cascaded to other audit officers through a Staff Performance Appraisal System. Staff Performance Appraisal System shall be guided by the Entity-Specific Guidelines on the Staff Performance Appraisal System.

Where the HIA is positioned at a level not subject to Performance Contracting, the HIA shall be evaluated under Staff Performance Appraisal System. In this case, the HIA shall ensure that the performance targets of the administrative and functional supervisor are cascaded to the Staff Performance Appraisal. IAFs are encouraged to adopt parameters provided in the HIA performance evaluation tool and guideline developed by PSASB.

External Assessor Terms of Reference Template has been provided on PSASB website www.pasb.go.ke for guidance.



Our Contacts

 CPA Centre 8th Floor, Thika
Super Highway, Ruaraka
P.O Box 38831 – 00100
Nairobi

 (+254) 020 251 1557

 www.psasb.go.ke

 info@psasb.go.ke

 <https://www.linkedin.com/company/psasb>

 <https://x.com/psasbke>

 <https://www.facebook.com/psasbke/>

 <https://www.instagram.com/psasbke/>