REPUBLIC OF KENYA

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 of this Manual

This Manual is strictly for use by all Internal Auditors working in the public sector entities in the Republic of Kenya.

How to use this Manual

The Manual has been prepared in alignment with the International Professional Practices Framework issued by the Global Institute of Internal Auditors. Internal Auditors in all the public sector entities are encouraged to refer to the latest version of the standards available at www.theiia.org.

The Manual is designed to be flexible and unrestrictive, and it does not intend to restrict any initiative that Internal Auditors can bring to their work based on prior experience, knowledge, and skills, or to constrain them from exercising their professional judgment. In many instances, Internal Auditors are encouraged to exercise professional judgment, particularly in determining levels of risk, adequacy of internal control processes, and types of tests to carry out.

Where an Internal Auditor faces difficulties in understanding or complying with the Manual, then appropriate clarifications and/or assistance should be obtained from the HIA, who may seek further guidance from the Public Sector Accounting Standards Board (PSASB) and the Internal Auditor General's Department (IAGD) at the National Treasury.

The relevant templates are available separately on the Public Sector Accounting Standards Board website www.psasb.go.ke. These templates are intended to assist Internal Auditors in applying best practices in Internal Auditing and may be customised to suit the entity's specific circumstances.

The users of this Manual should refer to the acronyms and definitions of words provided before the preamble to understand the meaning attributed to names, words, and phrases used.

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FOREWORD

Internal audit is a mandatory function across all public sector entities, as provided for under the Public Finance Management Act, 2012 (PFMA). Specifically, Section 73(1) and Section 155(4) of the Act require every National Government and County Government entity to establish an Internal Audit Function (IAF). The IAF plays a critical role in promoting accountability, strengthening internal controls, safeguarding public resources, and enhancing the overall governance framework within public institutions.

Public Finance Management Regulations (PFMR) regulation 161 and regulation 154 for National and County Governments, respectively, require the IAF to conduct Internal Audit in accordance with the International Professional Practices Framework (IPPF) and with policies and guidelines issued by the Public Sector Accounting Standards Board (PSASB) from time to time to ensure uniformity and consistency as stipulated in PFMA section 194 (1) (c). IAF is required to comply with the Constitution of Kenya (2010) and other relevant laws, legislations, regulations, and guidelines prescribed for the public sector.

According to IPPF 2024, the role of the IAF is to create, protect, and sustain organisational value by providing the management and governing body with independent, risk-based, objective assurance, advice, insight, and foresight. Internal audit in the public sector is critical in evaluating and providing reasonable assurance that the entities have implemented effective and efficient governance, risk management, and control systems to ensure they achieve their mandate and strategic objectives.

The Manual was developed by the PSASB and the Internal Auditor General's Department, National Treasury, in collaboration with representatives of Heads of Internal Audit (HIA) from public sector entities. Section 194 of the PFMA, 2012, mandates PSASB to prescribe Internal Audit procedures that comply with the PFM Act. In line with this mandate, the Board, through a Gazette Notice No. 11033 dated 30th August 2024, prescribed the IPPF for implementation by the Internal Audit Functions across all public sector entities. In light of the foregoing, the development of this Manual is a milestone in standardising internal auditing and will further serve as an aid in streamlining operations across all public sector entities.

This Manual comes at a time when the government is implementing reforms to promote accountability and transparency in the use of public funds. These reforms include the transition from cash accounting to accrual accounting by the National Government, County Governments, and their related entities, as well as the implementation of the Zero-Fault Audit Regime under the leadership of the Chief of Staff and the Head of Public Service. At the centre of these reforms is the internal audit function in the public sector, which is supposed to provide assurance, advice, insight, and foresight to ensure the reforms are successful.

I invite all public sector entities at the National and County Governments, stakeholders, partners, and the broader public to support the implementation of this Public Sector Entities' Model Internal Audit Manual. The implementation of the Manual will promote transparency and accountability and build a more inclusive and sustainable public sector for future generations.



HON. FCPA JOHN MBADI NG'ONGO, EGH

CABINET SECRETARY, NATIONAL TREASURY & ECONOMIC PLANNING

PREFACE

The Public Sector Entities Model Internal Audit Manual is a comprehensive guide designed to assist internal auditors in conducting effective and efficient audits. This manual outlines the laws, standards, and procedures that govern the internal audit function within a public sector entity. It serves as a reference point for auditors to ensure consistency, quality, and compliance with legal, regulatory, and policy requirements.

The primary objective of this manual is to provide a structured approach to the internal audit function of each public sector entity, from planning, execution, reporting, and follow-up. It emphasises the importance of independence, objectivity, and professional scepticism in all audit activities. By adhering to the guidelines outlined in this Manual, the internal auditors will contribute significantly to the organisation's overall governance, risk management, and internal control processes.

Additionally, this Manual serves as a comprehensive guide to strengthen the practice of internal auditing across the public sector. It is intended to provide clarity, consistency, and uniformity in the execution of internal audit functions, while aligning best practice with both national legal requirements and international standards. By fostering professionalism, accountability, and transparency, the Manual will support public institutions in safeguarding resources, enhancing governance, and delivering value to citizens.

This Manual is intended for implementation by all public sector internal auditors and other stakeholders who interact with the internal audit function, including the Accounting Officers, the Governing Bodies, and the Audit Committees. It is a living document that will be updated periodically to reflect changes in legal and regulatory requirements, internal audit standards, industry best practices, and organisational needs.

The development of this manual entailed a rigorous consultative process jointly steered by the Public Sector Accounting Standards Board and the National Treasury's Internal Auditor General Department, with the assistance of selected Heads of Internal Audit (HIAs) from the National and County Government entities. The Manual was thereafter subjected to intensive public participation and, finally, approved by the Public Sector Accounting Standards Board for issuance through a National Treasury Circular.

The National Treasury and PSASB are committed to providing much-needed assistance and guidance to public sector entities as they implement the Public Sector Entities' Model Internal Audit Manual. I expect that this Manual will serve as a valuable resource in enhancing the effectiveness of the internal audit function and supporting the realisation of public sector entities' mission and strategic objectives



DR. CHRIS K. KIPTOO, CBS

PRINCIPAL SECRETARY, NATIONAL TREASURY

ACKNOWLEDGEMENT

The Public Sector Accounting Standards Board (PSASB) is mandated by sections 194 of the PFM Act, 2012, to prescribe frameworks and set generally accepted standards for the development and management of accounting and financial systems by all State organs and public entities. Section 194 (1) (c) of the Public Finance Management Act (PFMA), 2012, mandates the PSASB to prescribe internal audit procedures for public sector entities which comply with the PFM Act.

The PFM regulations of 2015 Nos. 34 and 35 of the National and County Governments, respectively, require Internal Auditors to comply with the International Professional Practices Framework (IPPF) as issued by the Institute of Internal Auditors from time to time. PSASB, vide Gazette Notice No. 5440 of 8th August 2014, prescribed the adoption of the IPPF for implementation by internal auditors in the public sector to execute their internal audit functions. This adoption was reaffirmed by PSASB through Gazette Notice No. 11033 of 30th August 2024.

The International Internal Audit Standards Board (IIASB) released the Global Internal Audit Standards (GIAS) on January 9th, 2024, which replaced the 2017 International Standards for the Professional Practice of Internal Auditing. The 2024 IPPF comprises the GIAS, topical requirements, and global guidance.

PSASB has, in response to the changes within the IPPF, embarked on activities to update its guidelines, manuals, and templates. The Public Sector Entities Model Internal Audit Manual has been amended in line with the IPPF 2024 and best practices to provide guidance and to support internal auditors in public sector entities in executing their internal audits as required by the internal audit standards.

This Manual applies to all public sector entities, including MDAs, County Governments and related entities, who are encouraged to adopt and implement it upon issuance. Attendant templates to support the implementation of this manual, including the Audit Committee Charter template, Internal Audit Charter template, and Internal Audit Strategic Plan template, among others, can be obtained from the PSASB's website for application.

In developing the Manual, PSASB worked closely with the Internal Auditor General's Department at the National Treasury and Heads of Internal Audit from the following institutions across the public sector:

a) Bungoma County Government
b) Communication Authority of Kenya
c) Commission on Revenue Allocation
d) Insurance Regulatory Authority
e) Kenya Accountants and Secretaries National Examination Board
f) Kenya Civil Aviation Authority
g) Kenya Electricity Generating Company
h) Kenya Electricity Transmission Company
i) Kenya Power and Lighting Company
j) Kenya Revenue Authority

PSASB extends sincere appreciation to all parties who contributed to the development of this Public Sector Entities Model Internal Audit Manual. Their collective effort and dedication were instrumental in ensuring the timeliness, completeness, relevance, and quality of this important resource, which will strengthen internal audit practices, promote accountability, and enhance good governance in the management of public resources in Kenya.

FCPA PIUS NDUATIH, OGW
CHAIRMAN, PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

EXECUTIVE SUMMARY

This Manual serves as a crucial guide for public sector entities in Kenya on governing and managing effective internal audit functions. Its primary aim is to enhance governance, risk management and control practices across public sector entities, by ensuring that internal audits are conducted with the highest professional standards. By adhering to these standards, internal auditors can provide credible and reliable insights into the operations of public sector entities.

The Manual advocates for risk-based internal audit planning, which involves identifying and prioritising areas with the highest risks within an entity. By focusing on high-risk areas, internal auditors can provide targeted recommendations that can improve governance, risk management and control processes. It underscores the importance of ethics, professionalism, independence, and competence for internal auditors, maintaining the credibility and reliability of the internal audit function.

Effective communication with stakeholders is another critical aspect highlighted in the Manual. The Manual stresses the importance of maintaining open lines of communication between internal auditors, management, governing body and other stakeholders. This Manual outlines the considerations to be taken into account when appointing the HIA, developing an internal audit charter, establishing reporting lines and reporting requirements for the internal audit function. This will ensure that internal auditors provide clear, concise, and accurate reports to management and the audit committee.

These considerations are essential in creating an effective internal audit function that can operate independently and provide objective insights and foresight into the entity's operations. To maintain the effectiveness and reliability of the internal audit function, the Manual emphasises the need for quality assurance and improvement programs. These programs involve regular assessments of the internal audit function to ensure that it adheres to professional standards and best practices and complies with relevant regulations. The Manual recommends internal and external quality assessments as an essential tool for evaluating the effectiveness of the internal audit function. The Manual highlights the importance of ongoing training and professional development for internal auditors, ensuring they maintain the necessary skills and knowledge to perform their roles effectively.

In conclusion, this Manual provides valuable insights and practical recommendations for public sector entities in Kenya, helping them to establish and manage effective internal audit functions that promote good governance, transparency, accountability, and risk management.

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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

A. Background Information

Section 73 and 155 of The Public Finance Management Act (PFMA), 2012 requires National and County Government entities to establish Internal Audit functions and Audit Committees. Further Internal Audit functions and the Audit Committees are subject to the provisions of The Constitution of Kenya (2010), Public Financial Management Regulations (PFMR), 2015, IPPF 2024, The Code of Governance for State Corporation *(Mwongozo),* Gazette notices, Government circulars, Audit Committee Guidelines (Audit Committee Charter and attendant templates), and any other applicable laws and regulations.

B. Introduction

Entities have made numerous strides following the establishment of Internal Audit Function and Audit Committees in each public sector entity. The Public Sector Entities Model Internal Audit Manual was developed and reflects best practices to guide Internal Auditors in the adoption of IPPF 2024 issued by the Global Institute of Internal Auditors (IIA). The IPPF includes: Global Internal Audit Standards (GIAS), Topical Requirements, and Global Guidance. The Manual includes procedures and requisite templates for governing and managing the internal audit function as well as performing internal audit services.

This Manual together with other relevant internal audit guidelines provides a clear roadmap for practical implementation of Internal Audit Standards and positions internal audit to contribute to the improvement of governance, transparency, accountability, and integrity in public finance management. Additional guidelines may be issued from time to time on specific areas of internal audit work.

In implementing this Manual public sector entities will be required to customize the introduction section to include background information about the entity and respective primary legislation that govern the entity's mandate.

C. Objectives of the Manual

Standard 9.3 Methodologies

Requirements

The Chief audit executive must establish methodologies to guide the internal audit function in a systematic and disciplined manner to implement the internal audit strategy, develop the internal audit plan, and conform with the Standards.

The Chief audit executive must evaluate the effectiveness of the methodologies and update them as necessary to improve the internal audit function and respond to significant changes that affect the function.

The Chief audit executive must provide internal auditors with training on the methodologies.

This Public Sector Entities Internal Audit Manual (Manual) is developed and issued by the Public Sector Accounting Standards Board in accordance with its mandate in PFM Act s194 to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all National and County Government entities. The Manual is aligned to the requirements of the Public Finance Management Act, 2012 (PFMA), Public Finance Management Regulations for the National and County Governments, the IPPF as adopted by the Public Sector Accounting Standards Board (PSASB) and the Audit Committee Guidelines.

The objective of the Manual is to:

1. Provide Internal Auditors in public sector with practical professional guidance, tools and information for governing and managing the Internal Audit function, and steps for performing internal audit services. The use of the Manual should help bring a systematic and disciplined approach to the audit of governance, risk management, and control processes, and assist the Internal Audit function to meet the goal of adding value to the respective organisations.
2. Enhance the quality and effectiveness of the Internal Audit Function by paving the way to put into practice procedures and processes that would help it conform to International Professional Practices Framework (IPPF).
3. Appreciate the unique nature of the public sector entities and how the Internal Audit Functions fit in delivering organizational mandates.
4. Be a source of reference on Internal Audit profession for the public sector entities in Kenya.

The Manual provides perspectives on Governance, Risk Management and Internal Control that underpin Internal Audit work. The Manual also provides procedures and processes for maintaining an effective Internal Audit Function.

Users of the Manual are expected to have at least basic knowledge and understanding of management frameworks including governance, risk management and control processes. In addition to the Manual, Internal Auditors and users of the Manual are expected to have a comprehensive understanding of the IPPF 2024, the Constitution of Kenya, 2010, laws, regulations, policies, procedures, strategies, rules, and government directives that govern the internal audit profession.

D. Scope and Application of the Manual

This Manual applies to the Internal Audit functions in the public sector.

E. Effective Date and Review

This Manual shall be effective on the date approved by the PSASB. To continue adding value in the delivery of Internal Auditing services, the Manual will be subject to amendments and periodic reviews to cater for new developments in the profession and include experience and lessons learnt in its implementation. It shall be reviewed every three years or whenever circumstances dictate.

F. Customization

Due to the diverse and wide range of assurance and advisory services provided by Internal Audit functions, this Manual may be customized by public sector entities to suit their situations and circumstances. In doing this, they shall ensure that such Internal Audit Manuals are consistent with the Public Finance Management Act, 2012, the Public Finance Management Regulations, 2015, and the IPPF, 2024. Requirements of the Standards and the law shall not be customised. PSASB shall offer technical support to the Internal Audit functions which may require assistance in the development or review of such Manuals.

G. Structure of the Manual

Internal Audit functions exist to help an entity accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. This Manual demonstrates the systematic approach as outlined in the chapters herein as follows;

Chapter 1 Purpose, Ethics and Governance of the Internal Audit Function

Chapter 2 Managing the Internal Audit Function

Chapter 3 Performing Internal Audit Services

Chapter 4 Performance Management of the Internal Audit Function

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

1.1. 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. Further, the chapter highlights the internal audit mandate and independence which are documented in the internal audit charter.

1.2. 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:

1. *Successful achievement of its objectives.*
2. *Governance, risk management, and control processes.*
3. *Decision-making and oversight.*
4. *Reputation and credibility with its stakeholders.*
5. *Ability to serve the public interest.*

The Internal audit function will be most effective when:

1. *It is performed by competent professionals in conformance with the GIAS.*
2. *It is independently positioned with direct accountability to the Governing body.*
3. *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 and external stakeholders in the public sector entities rely on the assurance provided by the internal audit function on effectiveness, efficiency and economical use of public funds.

Internal auditors shall be aware of the political environment but must remain objective in their work. Internal auditors shall consider the effective use of public funds as part of the audit plan and controls in the entity's processes to protect the reliability and integrity of financial and non-financial information.

1.3. 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. The HIA will support and promote conformance with the principles and standards on Ethics and Professionalism by providing opportunities for training and guidance.

1.3.1 Demonstrate Integrity

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.

In discharging their professional responsibilities, auditors may encounter conflicting pressure from management of the audited entity, various levels of government, and other likely users. Auditors may also encounter pressure to inappropriately achieve personal or organizational gain. In resolving those conflicts and pressure, acting with integrity means that auditors place priority on their responsibilities to the public interest.

1. Honesty and Professional Courage

Standard 1.1 Honesty and Professional Courage

Requirements

Internal auditors must perform their work with honesty and professional courage.

Internal auditors must be truthful, accurate, clear, open, and respectful in all professional relationships and communications, even when expressing scepticism or offering an opposing viewpoint. Internal auditors must not make false, misleading, or deceptive statements, nor conceal or omit findings or other pertinent information from communications. Internal auditors must disclose all material facts known to them that, if not disclosed, could affect the organization's ability to make well-informed decisions.

Internal auditors must exhibit professional courage by communicating truthfully and taking appropriate action, even when confronted by dilemmas and difficult situations.

The chief audit executive must maintain a work environment where internal auditors feel supported when expressing legitimate, evidence-based engagement results, whether favourable or unfavourable.

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. The HIA shall ensure proper engagement supervision and periodic reviews of internal auditors' performance for effective internal audit activities.

2. Organization's Ethical Expectations

Standard 1.2 Organization's Ethical Expectations

Requirements

Internal auditors must understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and must be able to recognize conduct that is contrary to those expectations.

Internal auditors must encourage and promote an ethics-based culture in the organization. If internal auditors identify behaviour within the organization that is inconsistent with the organization's ethical expectations, they must report the concern according to applicable policies and procedures.

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. If internal auditors identify behaviour within the entity that is inconsistent with the entity's ethical expectations, they should communicate the concerns according to the procedures established by the entity.

3. Legal and Ethical Behavior

Standard 1.3 Legal and Ethical Behavior

Requirements

Internal auditors must not engage in or be a party to any activity that is illegal or discreditable to the organization or the profession of internal auditing or that may harm the organization or its employees.

Internal auditors must understand and abide by the laws and/or regulations relevant to the industry and jurisdictions in which the organization operates, including making disclosures as required.

If internal auditors identify legal or regulatory violations, they must report such incidents to individuals or entities that have the authority to take appropriate action, as specified in laws, regulations, and applicable policies and procedures.

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.

Internal auditors shall have an impartial, unbiased attitude and avoid any conflict of interest to make professional judgments, fulfil their responsibilities, and achieve the purpose of internal auditing without compromise. To maintain objectivity, the IAF shall be independently positioned.

1.3.2 Maintaining Objectivity

Principle 2: Maintain Objectivity

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

PFMR, 2015 Requirements

Regulation 162(5) (National Government)/ Regulation 155(6) (County Government)

(5) All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

(6) Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited.

Standard 2.1 Individual Objectivity

Requirements

Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances.

1. 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. The HIA may implement training plans that help internal auditors to better understand objectivity- impairing scenarios and how best to address them.

Objective assessments require an impartial mindset, free from bias and undue influence, which is essential to providing objective assurance and advice to the governing body and senior management. Internal auditors shall be aware of the ways in which situations, activities, and relationships may affect their ability to be objective. Internal auditors shall consider the human tendency to misinterpret information or make assumptions or mistakes, which impairs the ability to evaluate information and evidence objectively.

Examples of biases include but are not limited to:

a) Self-review bias – lack of critical perspective when reviewing one's own work, which may lead to overlooking mistakes or shortcomings.

b) Familiarity bias – making assumptions based on past experiences, which may compromise professional skepticism.

c) Prejudice or unconscious bias – misinterpretation of information, based on predisposed ideas about culture, ethnicity, gender, ideology, race, or other characteristics, which may cause inaccurate judgments.

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.

b) Conducting investigations.

c) 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.

2. Safeguarding Objectivity

PFMR, 2015 Requirements

Regulation 168 (National Government)/ Regulation 161 (County Government)

An internal auditor shall not perform audit assignments for providing assurance relating to activities and structures on which he or she has provided consulting services or in which he had been employed over in the last twenty-four months.

Standard 2.2 Safeguarding Objectivity

Requirements

Internal auditors must recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity.

Internal auditors must not accept any tangible or intangible item, such as a gift, reward, or favor, that may impair or be presumed to impair objectivity.

Internal auditors must avoid conflicts of interest and must not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings.

When performing internal audit services:

- Internal auditors must 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 12 months.

- If the internal audit function is to provide assurance services where it had previously performed advisory services, the chief audit executive must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed. Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by an independent party outside the internal audit function.

- If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they must disclose potential impairments to the party requesting the services before accepting the engagement.

The chief audit executive must establish methodologies to address impairments to objectivity. Internal auditors must discuss impairments and take appropriate actions according to relevant methodologies.

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.
Internal auditors shall avoid conflicts of interest and shall not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings.

When performing internal audit services:

a) 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.

b) If the IAF is to provide assurance services where it had previously performed advisory services, the HIA shall confirm that the nature of the advisory services does not impair objectivity and shall assign resources such that individual objectivity is managed. Assurance engagements for functions over which the HIA has responsibility shall be overseen by an independent party.

c) If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they shall disclose potential impairments to the party requesting the services before accepting the engagement.

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:

a) Ensure internal auditors do not.
   i. Perform duties outside the internal audit mandate.
   ii. Initiate or approve accounting transactions external to the IAF.
   iii. 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.

b) Ensure that, where management activities have been assigned to IAF a transition plan shall be developed by the accounting officer.

c) Ensure internal auditors exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined or audited.

d) 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.

e) Ensure internal auditors take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

f) 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.

g) Obtain external assurance on management activities being undertaken by IAF.

h) Regularly review the responsibilities assigned to the HIA and the impact they have on objectivity of Internal Auditors.

i) Regularly review the reporting lines of the HIA and assess if there are any factors that would impair internal audit objectivity.

j) Ensure the HIA has developed an effective system for identifying, reporting and resolving impairment factors which shall include:
   i. IAF performance management system balances between audit client feedback, results of the audit process and undertaking audit engagements.
   ii. Undertaking adequate supervision by reviewing of each audit assignment

k) Ensure the HIA discloses any interference and related implications in determining the scope of Internal Auditing, performing work, and/or communicating results to the governing body and the accounting officer.

l) Establish a system for internal auditors to report conflict of interest.

m) Ensure that planning and assigning internal auditors to audit engagements reduces the risk of conflict of interest.

n) Ensure the Internal Auditors sign a declaration of independence and objectivity on a regular basis or at least annually.

o) Ensure there are safeguards in place to limit impairment to objectivity in instances where the HIA has been assigned roles and responsibilities that fall outside of internal auditing role.

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

The governing body shall discuss the threats to objectivity in their meetings and pursue the matter with the Management to provide for safeguards against such threats and action plan towards eliminating the threats.

3. Disclosing Impairment to Objectivity

Standard 2.3 Disclosing Impairments to Objectivity

Requirements

If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties.

If internal auditors become aware of an impairment that may affect their objectivity, they must disclose the impairment to the chief audit executive or a designated supervisor. If the chief audit executive determines that an impairment is affecting an internal auditor's ability to perform duties objectively, the chief audit executive must discuss the impairment with the management of the activity under review, the board, and/or senior management and determine the appropriate actions to resolve the situation.

If an impairment that affects the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions is discovered after an engagement has been completed, the chief audit executive must discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation.

If the objectivity of the chief audit executive is impaired in fact or appearance, the chief audit executive must disclose the impairment to the board.

Internal auditors shall disclose and mitigate impairment to objectivity as determined by HIA in agreement with the governing body and senior management. If an impairment to objectivity cannot be avoided, the HIA may consider options to manage the impairment, including:

a) Reassigning internal auditors to remove the impaired internal auditor from the engagement.
b) Rescheduling an engagement to ensure that it is properly staffed.
c) 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.

1.3.3 Demonstrate Competence

Principle 3: Demonstrate Competency

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

Internal auditors provide a diverse array of services that require developing and applying the knowledge, skills and abilities to perform internal audit services. In addition to possessing or obtaining the competencies needed to perform services, internal auditors improve the effectiveness and quality of services by pursuing professional development.

1. **Competency**

Standard 3.1 Competency

Requirements

Internal auditors must possess or obtain the competencies to perform their responsibilities successfully. The required competencies include the knowledge, skills, and abilities suitable for one's job position and responsibilities commensurate with their level of experience. Internal auditors must possess or develop knowledge of The IIA's Global Internal Audit Standards.

Internal auditors must engage only in those services for which they have or can attain the necessary competencies.

Each internal auditor is responsible for continually developing and applying the competencies necessary to fulfil their professional responsibilities. Additionally, the chief audit executive must ensure that the internal audit function collectively possesses the competencies to perform the internal audit services described in the internal audit charter or must obtain the necessary competencies.

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.

Internal audit shall be performed by or be under the control of auditors who have the technical skills, experience and perspective in other areas of audit that will enable them to comply with the IPPF and this Manual. The HIA shall include funding for training and professional development in the internal audit budget and provide opportunities internally as well as externally, through continuing professional education, training, and conferences.

To develop and demonstrate competencies, internal auditors may:

a) Obtain appropriate professional credentials, such as the Certified Internal Auditor® designation and other certifications.

b) Identify opportunities for improvement and competencies that need development, based on feedback provided by stakeholders, peers and supervisors.

c) Seek relevant training not only in internal audit methodologies but also on business activities relevant to the organization. Training opportunities may include enrolling in courses, working with a mentor, or being assigned new tasks under supervision during an engagement.

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.

2. Continuing Professional Development

Standard 3.2 Continuing Professional Development

Requirements
Internal auditors must maintain and continually develop their competencies to improve the effectiveness and quality of internal audit services. Internal auditors must pursue continuing professional development including education and training. Practicing internal auditors who have attained professional internal audit certifications must follow the continuing professional education policies and fulfil the requirements applicable to their certifications.

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.

The HIA shall report on the adequacy of resources including competencies to the governing body on annual basis and shall develop a training and development plan. The plan shall contain strategies to:

a) Enhance internal audit techniques.

b) Provide on-the job training, coaching and mentoring to enable the internal auditors to enhance their experience.

c) Sensitize and provide training on the operations of the entity to enable the internal auditors to have an in-depth understanding of operations.

d) Acquire specialist training for those internal auditors responsible for a particular activity such as ICT audit, forensic auditing, data analytics, system design, procurement audit, compliance audit, technical audits, project management etc.

e) Enhance the professional development of the internal auditors by developing a competency framework aligned to the IIA competency framework, entity's career progression guidelines and ensuring the Internal Auditors attain relevant certifications and qualifications.

f) Manage training for internal auditors with responsibility for managing and directing internal audit teams, together with those staff members who show potential for management positions.

g) Continuously develop internal auditors professionally as per the requirement of their respective professional bodies.

h) Ensure regular assessment of available competencies in the IAF vis-à-vis current and future demand for internal audit services.

i) Link with the Continuing Professional Education Policies and plan to the entity's performance management system.

j) Ensure appropriate information is maintained for all capacity building initiatives and their effectiveness (closing skill gaps identified during performance evaluation) are continuously assessed.

k) Ensure the capacity building programme are adequately resourced.

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. As part of the required continuing professional education, the IIA requires holders of its certifications to complete ethics training. While this requirement is linked specifically to IIA certifications, all internal audit professionals should obtain ethics-focused continuing professional education or training regularly.

1.3.4 Exercise Due Professional Care

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.

Due professional care requires the internal auditors to understand the IPPF, have the competencies and work with diligence to implement this Manual and other laws, regulations and guidelines issued by the government from time to time. The internal auditor shall be expected to apply professional judgement, apply the required expertise, and take appropriate steps when planning, performing and

reporting on an audit engagement. This will enable the internal auditor to gain the respect and co-operation from the audit clients.

1. Conformance with the Global Internal Audit Standards

Standard 4.1 Conformance with the Global Internal Audit Standards

Requirements
Internal auditors must plan and perform internal audit services in accordance with the Global Internal Audit Standards.

The internal audit function's methodologies must be established, documented, and maintained in alignment with the Standards. Internal auditors must follow the Standards and the internal audit function's methodologies when planning and performing internal audit services and communicating results.

If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications must also cite the use of the other requirements, as appropriate.

If laws or regulations prohibit internal auditors or the internal audit function from conforming with any part of the Standards, conformance with all other parts of the Standards is required and appropriate disclosures must be made.

When internal auditors are unable to conform with a requirement, the chief audit executive must document and communicate a description of the circumstance, alternative actions taken, the impact of the actions, and the rationale.

The HIA shall review the internal audit function's audit procedures to align with the Standards. The HIA or a designated engagement supervisor shall ensure that engagement work programs align with the requirements of the Standards and that internal audit engagements are conducted in accordance with the Standards' requirements. If inconsistencies exist between the Standards and requirements issued by regulatory bodies, internal auditors and the internal audit function shall be required to comply with the law and regulations. Where the internal auditors are unable to conform with the Standards, they shall discuss with the HIA and give reasons for nonconformance and the effect.

2. Due Professional Care

Standard 4.2. -Due Professional Care

Requirements
Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including:

- The organization's strategy and objectives.
- The interests of those for whom internal audit services are provided and the interests of other stakeholders.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Cost relative to potential benefits of the internal audit services to be performed.
- Extent and timeliness of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of risks to the activity under review.
- Probability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.
- Use of appropriate techniques, tools, and technology.

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.

Due professional care comprises the circumstances and aspects of risk that the HIA must consider when performing the risk assessment on which the internal audit plan is based. Relevant circumstances include the entity's strategy and objectives and the adequacy and effectiveness of the entity's governance, risk management and control processes. Due professional care also requires weighing the costs (such as resource requirements) of the internal audit services against the benefits that may result. Additionally, proper engagement supervision and the quality assurance and improvement program promote due professional care.

3. Professional Skepticism

Standard 4.3 Professional Skepticism

Requirements
Internal auditors must exercise professional scepticism when planning and performing internal audit services.
To exercise professional scepticism, internal auditors must:

- Maintain an attitude that includes inquisitiveness.
- Critically assess the reliability of information.
- Be straightforward and honest when raising concerns and asking questions about inconsistent information.
- Seek additional evidence to make a judgment about information and statements that might be incomplete, inconsistent, false, or misleading.

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. Additional validation is provided by the review and approval of workpapers and/or engagement communications by the HIA or a designated engagement supervisor.

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.

1.3.5 Maintain Confidentiality

Principle 5: Maintain Confidentiality

Internal Auditors use and protect information appropriately.

PFMR, 2015 Requirements
Regulation 162(3) (National Government)/ Regulation 155(4) (County Government)

The internal auditor shall have unrestricted, direct and prompt access to all records, officials or personnel holding any contractual status and to all the premises and properties of the entity.

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.psasb.go.ke for guidance.

1. Use of Information

PFMR, 2015 Requirements
Regulation 162(4) (National Government)/ Regulation 155(4) (County Government)

The internal auditor shall respect the confidential nature of information and shall use such information with discretion and only in so far as it is relevant to reach an internal audit opinion.

Standard 5.1 Use of information

Requirements
Internal auditors must follow the relevant policies, procedures, laws, and regulations when using information. The information must not be used for personal gain or in a manner contrary or detrimental to the organization's legitimate and ethical objectives.

Using and handling information appropriately is the responsibility of every internal auditor. The inappropriate use of information may have unintended consequences. The HIA shall discuss with internal auditors the policies, procedures and expectations related to the appropriate use of information to which they have access. The HIA shall require internal auditors to acknowledge their understanding through signed attestations or other formats. When handling sensitive and/or personal data, the internal audit function shall apply appropriate security measures.

2. Protection of Information

Standard 5.2 Protection of Information

Requirements
Internal auditors must be aware of their responsibilities for protecting information and demonstrate respect for the confidentiality, privacy and ownership of information acquired when performing internal audit services or as a result of professional relationships.
Internal auditors must understand and abide by the laws, regulations, policies and procedures related to confidentiality, information privacy, and information security that apply to the organization and internal audit function.

Considerations specifically relevant to the internal audit function include:

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

Internal auditors must not disclose confidential information to unauthorized parties unless there is a legal

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. Internal auditors must manage the risk of exposing or disclosing information inadvertently. Information may be protected from intentional or unintentional disclosure through controls such as data encryption, password protection, email distribution, restrictions on the use of social media, and restrictions on physical access. When internal auditors no longer need access to the data, digital permissions should be revoked and printed copies should be handled according to established procedures.

For Internal auditors who are IIA members or candidates for IIA professional certifications, breaches of the code of ethics and professionalism will be evaluated and administered according to the IIA'S by laws, the process for disposition of code of ethics violations, and the process of disposition of certification violations.

1.4 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. Governing the internal audit function is critical for ensuring that an entity maintains effective controls, manages its risks appropriately and complies with the relevant laws and regulations. The HIA is required to work closely with the governing body and senior management to establish the internal audit function, position it independently and oversee its performance. The activities of the governing body and senior management are essential to the internal audit function's ability to fulfill the purpose of internal auditing. These activities establish a necessary foundation for an effective dialogue between the governing body, senior management and the HIA on the following among others:

a) Significant change in Standards.
b) Change in internal audit function leadership.

c) Significant changes in the reporting relationship between the governing body and the HIA, such as a new chairperson to whom the HIA reports to or a change in the structure or composition of the governing body.

d) Major changes in the structure or composition of management that affect the HIA's positioning within the entity.

With the above collaborations, entities can ensure that their internal audit function effectively helps governance, risk management and control efforts, thereby enhancing organizational performance and accountability. Additionally, the internal audit function shall be familiar with the laws, regulations, policies and procedures that govern the entity and consider legal aspects while conducting all assurance and advisory engagements.

1.4.1 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.

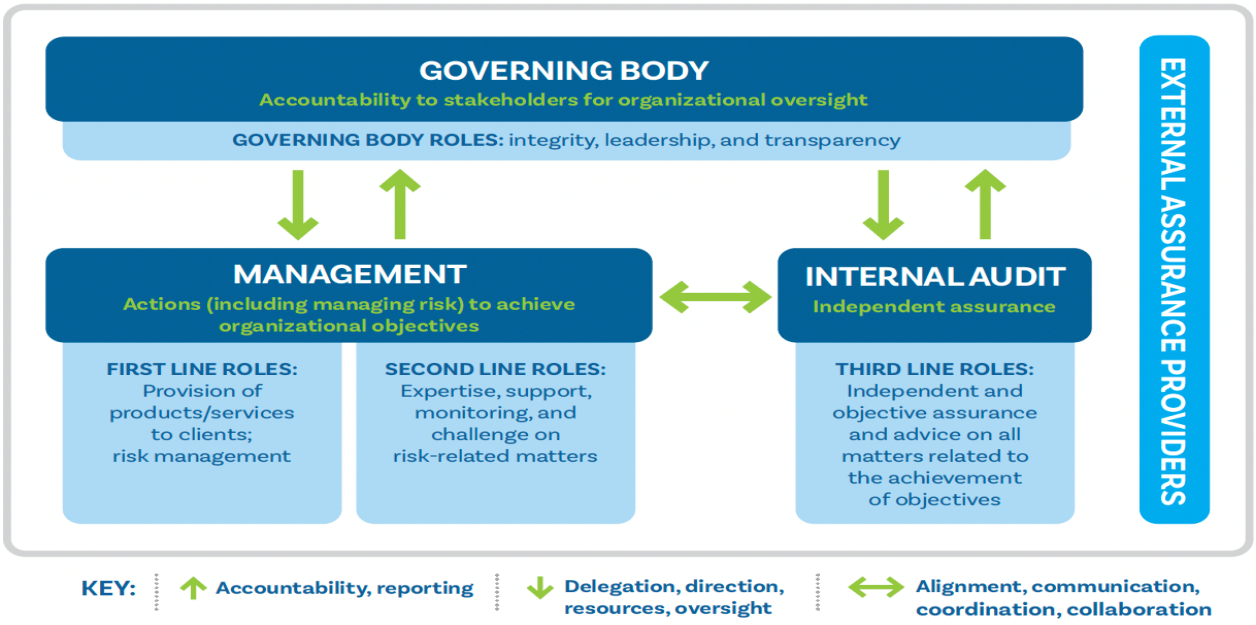
Application of the model shall be optimized by:

a) Adopting a principles-based approach and adapting the model to suit entity objectives and circumstances.

b) Focusing on the contribution risk management makes to achieving objectives, creating and protecting value.

c) Clearly understanding the roles and responsibilities represented in the model and the relationships among them.

d) Implementing measures to ensure activities and objectives are aligned with the prioritized interests of stakeholders.



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The principles in the model show how each role contributes to the success of an entity:

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

b) **Governing Body Roles** – The governing body ensures (a) appropriate structures and processes are in place and (b) 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.

c) **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.

d) **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.

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

f) **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.

When building the case for an effective internal audit function, the HIA can leverage the Three Lines Model, the Purpose of Internal Auditing, and other entity-specific attributes that help the internal audit function be recognized as valuable to the entity's success.

An internal audit function that achieves its mandate enhances:

a) The governing body's ability to exercise its oversight responsibilities.

b) Senior management's decision-making and ability to achieve entity's objectives.

c) The entity's ability to create, protect, and sustain value.

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.

1.4.2 IIA Three Lines Model Key Roles

The model outlines the roles and responsibilities of the governing body, senior management, internal audit function and external assurance providers. Internal audit's third-line independent assurance role is unique within the entity, positioning the function to play a vital role in value creation and protection. The following high-level roles serve to amplify the principles of the Three Lines Model.

1. The Governing Body

a) Accepts accountability to stakeholders for oversight of the entity.

b) Engages with stakeholders to monitor their interests and communicate transparently on the achievement of objectives.

c) Nurtures a culture promoting ethical behaviour and accountability. Establishes structures and processes for governance, including auxiliary committees as required. Delegates responsibility and provides resources to management for achieving the objectives of the entity.

d) Determines entity's appetite for risk and exercises oversight of risk management (including internal control).

e) Maintains oversight of compliance with legal, regulatory and ethical expectations.

f) Establishes and oversees an independent, objective and competent internal audit function.

2. Senior Management

A. First line roles

a) Leads and directs actions to achieve the objectives of the entity.

b) Maintains a continuous dialogue with the governing body, and reports on: planned, actual, and expected outcomes linked to the objectives of the entity and risk.

c) Establishes and maintains appropriate structures and processes for the management of operations and risk.

d) Ensures compliance with legal, regulatory, and ethical expectations.

B. Second line roles

a) Provides complementary expertise, support, monitoring and challenge related to the management of risk, including:

i. The development, implementation and continuous improvement of risk management practices (including internal control) at a process, system and entity level.

ii. The achievement of risk management objectives, such as: compliance with laws, regulations and acceptable ethical behaviour; internal control; information and technology security; sustainability and quality assurance.

b) Provides analysis and reports on the adequacy and effectiveness of risk management.

3. Internal audit

a) Maintains primary accountability to the governing body.

b) Communicates independent and objective assurance and advice to senior management and the governing body on the adequacy and effectiveness of governance , risk management and internal control to support the achievement of entity objectives and to promote and facilitate continuous improvement.

c) Reports impairment to independence and objectivity to the governing body and implements safeguards as required.

4. External assurance providers

Provide additional assurance to:

a) Satisfy legislative and regulatory expectations that serve to protect the interests of stakeholders.

b) Satisfy requests by senior management and the governing body to complement internal sources of assurance.

1.4.3 Internal Audit Mandate

Principle 6: Authorized by the Board

The Board establishes, approves, and supports the mandate of the internal audit function.

PFMA, 2012 Requirements

Section 73 (National Government)/ Section 155 (County Government)

The arrangements for conducting internal auditing include—

a) Reviewing the governance mechanisms of the entity and mechanisms for transparency and accountability with regard to the finances and assets of the entity.
b) Conducting risk-based, value-for-money and systems audits aimed at strengthening internal control mechanisms that could have an impact on achievement of the strategic objectives of the entity.
c) Verifying the existence of assets administered by the entity and ensuring that there are proper safeguards for their protection.
d) Providing assurance that appropriate institutional policies and procedures and good business practices are followed by the entity.
e) Evaluating the adequacy and reliability of information available to management for making decisions with regard to the entity and its operations.

PFMR, 2015 Requirements

PFM Regulation 160(1) and 153 (1) for National and County government mandates Internal Auditors to:

a) Review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes.
b) Give reasonable assurance through the Audit Committee on the state of risk management, control and governance within the entity; and
c) Review the effectiveness of the financial and non-financial performance management systems of the entity.

Standard 6.1 Internal Audit Mandate

Requirements

The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate. In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or partially in laws or regulations, the internal audit charter must include the legal requirements of the mandate.

To help the board and senior management determine the scope and types of internal audit services, the chief audit executive must coordinate with other internal and external assurance providers to gain an understanding of each other's roles and responsibilities.

The chief audit executive must document or reference the mandate in the internal audit charter, which is approved by the board.

Periodically, the chief audit executive must assess whether changes in circumstances justify a discussion with the board and senior management about the internal audit mandate. If so, the chief audit executive must discuss the internal audit mandate with the board and senior management to assess whether the authority, role, and responsibilities continue to enable the internal audit function to achieve its strategy and accomplish its objectives.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function.
- Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.

Senior Management

- Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate.
- Support the internal audit mandate throughout the organization and promote the authority granted to 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 IAF carries out the mandate by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes throughout the entity. The IAF authority/independence is created by its direct reporting relationship to the governing body.

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

Circumstances may justify a follow-up discussion with the governing body and senior management on the internal audit mandate or other aspects of the internal audit charter. These circumstances may include, but are not limited to:

a) A notable change in the Global Internal Audit Standards.

b) A significant acquisition or reorganization within the entity.

c) Significant changes in the governing body and/or senior management.

d) Significant changes to the entity's strategies, objectives, risk profile, or the environment in which it operates.

e) New laws or regulations that may affect the nature and/or scope of internal audit services.

These conditions may arise at any point during the year. The HIA shall formally consider any such changes at least annually.

1.4.4 Internal Audit Charter

Standard 6.2 Internal Audit Charter

Requirements
The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's:

- Purpose of internal Auditing.
- Commitment to adhering to the Global Internal Audit Standards.
- Mandate, including scope and types of services to be provided, and the board's responsibilities and expectations regarding management's support of the internal audit function.
- Organizational position and reporting relationships.

The chief audit executive must discuss the proposed charter with the board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.

Essential Conditions
Board

- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function.
- Approve the internal audit charter.
- Review the internal audit charter with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization.

Senior Management

- Communicate with the board and chief audit executive about management's expectations that should be considered for inclusion in the 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 shall include the legal mandate and provisions as provided in the law and regulations that govern the internal audit function. The internal audit charter empowers the internal audit function to perform its duties with integrity and achieve its objectives.

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 internal audit charter may be reviewed annually to ensure it continues to meet its purpose and mandate as well as reinforce stakeholder support for the internal audit function. The internal audit charter shall reference the Global Internal Audit Standards for conformance.

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.

1. Governing Body and Senior Management Support

Standard 6.3 Board and Senior Management Support

Requirements

The chief audit executive must provide the board and senior management with the information needed to support and promote recognition of the internal audit function throughout the organization.

The chief audit executive must coordinate the internal audit function's board communications with senior management to support the board's ability to fulfill its requirements.

Essential Conditions

Board

- Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.
- Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.
- Support the chief audit executive through regular, direct communications.
- Demonstrate support by:
  - Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfill the internal audit mandate.
  - Approving the internal audit charter, internal audit plan, budget, and resource plan.
  - Making appropriate inquiries of senior management and the chief audit executive 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.
  - Meeting periodically with the chief audit executive in sessions without senior management present.

Senior Management

- Support recognition of the internal audit function throughout the organization.
- Work with the board and management throughout the organization to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.

A. Governing Body Oversight

"Essential conditions" are activities in each standard under domain III that establish a necessary foundation for an effective dialogue between the governing body, senior management, and the HIA, ultimately enabling an effective internal audit function.

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) Discuss with the HIA and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function.

d) 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.

e) Recommend to the governing body the approval of audit committee charter.

f) Champion the IAF to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.

g) 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.

h) Specifying that the HIA reports to a level within the entity that allows the internal audit function to fulfill the internal audit mandate.

i) Approve the internal audit plan, budget, and resource plan and oversee its implementation.

j) 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.

k) Establish a direct reporting relationship with the HIA and the internal audit function to enable the internal audit function to fulfill its mandate.

l) Approve the appointment and removal of the HIA.

m) Drive the performance evaluation of the HIA.

n) Provide the HIA with opportunities to discuss significant matters with the governing body, including meetings without senior management present.

o) 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. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the governing body when necessary.

p) 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.

q) 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.

r) Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.

s) Facilitate effective communication and relationship between internal audit and other assurance providers.

B. 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) Communicate with the governing body and HIA about senior management's expectations that should be considered for inclusion in the internal audit charter.

f) 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.

g) Recognize HIA's direct reporting relationship with the governing body.

h) Engage with the governing body and the HIA to understand any potential impairment to the internal audit function's independence caused by non-audit roles or other circumstances and support the implementation of appropriate safeguards to manage such impairment.

i) Provide input to the governing body on the appointment and removal of the HIA.

j) Participate in the performance evaluation of the HIA.

k) Ensure implementation of appropriate action plans on audit recommendations.

l) Facilitate provision of the resources for the internal audit function.

m) Facilitate communication and collaborations with other assurance providers.

C. 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.

If the HIA disagrees with the governing body's and/or senior management's reasons for not performing one or more essential conditions, the HIA may conclude that the internal audit function cannot conform with the Standards. In such cases, the HIA shall document why the governing body and/or senior management will not perform the essential conditions.

2. Organizational Independence

Principle 7: Positioned Independently

The Board establishes and protects the internal audit function's independence and qualification.

PFM Regulation 162 (2) and 155 (2) for National and County Government

The Head of Internal Audit unit under a national/county government entity shall enjoy operational independence through the reporting structure by reporting administratively to the Accounting Officer and functionally to the Audit Committee. Independence of the internal auditor.

An Accounting Officer shall ensure that the organizational structure of the internal audit unit facilitates

a) The entity to accomplish its internal audit responsibilities.
b) The internal auditor with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of internal audit reports;
c) Appropriate action to be taken on internal audit recommendations; and
d) The internal auditor to be independent of the programs, operations and activities he or she audits to ensure the impartiality and credibility of the internal audit work undertaken.

The internal auditor shall have unrestricted, direct and prompt access to all records, officials or personnel holding any contractual status and to all the premises and properties of the entity.

The internal auditor shall respect the confidential nature of information and shall use such information with discretion and only in so far as it is relevant to reach an internal audit opinion.

All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

Internal auditors shall have no direct operational responsibility or authority over any of the activities they review, and accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited. and comment on their effectiveness in the annual report.

PFMR, 2015 Requirements

PFM Regulation 166(2) and 159 (2) for National and County government

Each year the Audit Committee shall carry out annual review of the independence, performance and competency of the internal audit unit and comment on their effectiveness in the annual report

Standard 7.1 Organizational Independence

Requirements

The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired, and the actions or safeguards employed to address the impairment.

The chief audit executive must document in the internal audit charter the reporting relationships and organizational positioning of the internal audit function, as determined by the board.

The chief audit executive must discuss with the board 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 chief audit executive must advise the board and senior management of the types of safeguards to manage actual, potential, or perceived impairments.

When the chief audit executive has one or more ongoing roles beyond internal auditing, the responsibilities, nature of work, and established safeguards must be documented in the internal audit charter. If those areas of responsibility are subject to internal auditing, alternative processes to obtain assurance must be established, such as contracting with an objective, competent external assurance provider that reports independently to the board.

When the chief audit executive's non-audit responsibilities are temporary, assurance for those areas must be provided by an independent third party during the temporary assignment and for the subsequent 12 months. Also, the chief audit executive must establish a plan to transition those responsibilities to management.

If the governing structure does not support organizational independence, the chief audit executive must document the characteristics of the governing structure limiting independence and any safeguards that may be employed to achieve this principle.

Standard 7.1 Organizational Independence

Essential Conditions

Board

- Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate.
- Authorize the appointment and removal of the chief audit executive.
- Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive.
- Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present.
- Require that the chief audit executive be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board when necessary.
- Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the chief audit executive that are beyond the scope of internal auditing.
- Engage with senior management and the chief audit executive to establish appropriate safeguards if chief audit executive roles and responsibilities impair or appear to impair the internal audit function's independence.
- Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.

Senior Management

- 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 board.
- Recognize the chief audit executive's direct reporting relationship with the board.
- Engage with the board and the chief audit executive to understand any potential impairments to the internal audit function's independence caused by non-audit roles or other circumstances and support the implementation of appropriate safeguards to manage such impairments.
- Provide input to the board on the appointment and removal of the chief audit executive.
- Solicit input from the board on the performance evaluation and remuneration of the chief audit executive.

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. The IAF will only be able to fulfil the Purpose of Internal Auditing when the HIA reports directly to the governing body, is qualified, and is positioned at a level within the entity that enables the IAF to discharge its services and responsibilities without interference.

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.

Independence is also reinforced in the Purpose Statement in **Domain I**. To challenge entrenched interests requires organizational independence of the internal audit function and the courage of auditors

as described in **Standard 1.1** Honesty and Professional Courage. Having sufficient independence is essential because it reduces the risks to IAF capability to conduct its work thoroughly, and it supports the perception that internal audit function is not unduly influenced. The HIA shall confirm to the governing body the organizational independence of the IAF at least annually.

A. Impairment to independence

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. Additionally, through discussions with the concerned parties, the HIA may be able to resolve any situations of perceived impairment that do not affect the internal audit function's ability to perform its responsibilities independently.
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.
g) The internal audit function performs or the HIA supervises assurance services related to an activity that is managed by a senior executive to which the HIA reports administratively.
h) The HIA undertakes responsibilities outside the internal audit function that may impair the IAF independence. The HIA needs to take appropriate safeguards.

B. Safeguards to Independence

The following activities support the independence of the IAF:

a) 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.

A supportive environment in the organization as a whole encourages auditors to audit and report without restriction and fear of retaliation for negative opinions or critical findings. A significant component of a supportive environment is the audit committee, board, or other governing body, which is crucial in ensuring auditor independence.

b) 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.

c) 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.

d) 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.

e) 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.

1.4.5 Head of Internal Audit Qualifications

Standards 7.2 Chief Audit Executive Qualifications

Requirements

The chief audit executive must help the board understand the qualifications and competencies of a chief audit executive that are necessary to manage the internal audit function. The chief audit executive facilitates this understanding by providing information and examples of common and leading qualifications and competencies.

The chief audit executive must maintain and enhance the qualifications and competencies necessary to the roles and responsibilities expected by the board.

Essential Conditions

Board

- Review the requirements necessary for the chief audit executive to manage the internal audit function, as described in Domain IV: Managing the Internal Audit Function.
- Approve the chief audit executive's roles and responsibilities and identify the necessary qualifications, experience, and competencies to carry out these roles and responsibilities.
- Engage with senior management to appoint a chief audit executive with the qualifications and competencies necessary to manage the internal audit function effectively and ensure the quality performance of internal audit services.

Senior Management

- Engage with the board to determine the chief audit executive's qualifications, experience, and competencies.
- Enable the appointment, development, and remuneration of the chief audit executive through the organization's human resources processes.

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.

PFMA, 2012 PFMR, 2015 Requirements

Regulation 170 (National Government)/ Regulation 163 (County Government)

Internal audit planning shall be carried out on the basis of risk assessment and shall be set out in a three-year strategic plan, on the basis of which an annual internal audit unit plan shall be developed.

Standard 9.2 Internal Audit Strategy

Requirements

The chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.

An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfilment of the internal audit mandate.

The chief audit executive must review the internal audit strategy with the board and senior management periodically.

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;

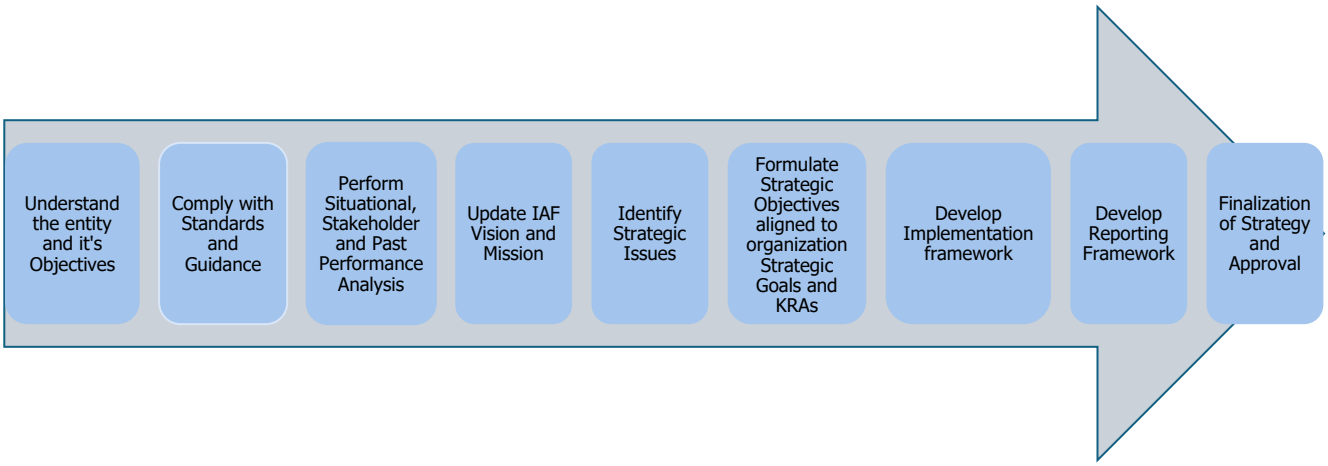


Figure 2: Strategy Formulation Process

a) Understanding the entity and its objectives

Standard 9.1 Understanding Governance, Risk Management and Control Processes

Requirements

To develop an effective internal audit strategy and plan, the chief audit executive must understand the organization's governance, risk management, and control processes. To understand governance processes, the chief audit executive must consider how the organization:

- Establishes strategic objectives and makes strategic and operational decisions.
- Oversees risk management and control.
- Promotes an ethical culture.
- Delivers effective performance management and accountability.
- Structures its management and operating functions.
- Communicates risk and control information.
- Coordinates activities and communications among the governing body, internal and external providers of assurance services, and management.

To understand risk management and control processes, the chief audit executive must consider how the organization identifies and assesses significant risks and selects appropriate control processes. This includes understanding how the organization identifies and manages the following key risk areas:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws and/or regulations.

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.

In understanding the governance, risk management and internal control processes, the HIA should be well informed about relevant leading principles, globally accepted frameworks and models, laws and regulations, professional guidance and other requirements specific to the industry and sector within which the organization operates. The IAF should adopt values contained within the ethics and professionalism principles alongside entity's specific values and codes of conduct. Further, the HIA

should assess whether the principles and frameworks have been implemented in the organization and gauge the maturity of the organization's processes.

To appreciate the governance processes and assurance activities, the HIA should hold discussions with the board and senior management. Additionally, the HIA should review board and committee charters, agendas and minutes for insight into the role the board plays in the organization's governance regarding strategic and operational decision-making. Review of reports and/or results of previously completed governance reviews on any identified concerns may also provide important information.

To understand risk management processes, the HIA should identify whether the organization has defined its risk appetite and implemented a risk management strategy and/or framework. Further discussions with the board and senior management may enable the HIA to understand their perspectives and priorities related to the organization's risk management. The HIA may obtain risk information from reviewing recently completed risk assessments and related communications issued by senior and operational management, those charged with risk management, external auditors, regulators, and other internal and external providers of assurance services.

To develop a broad understanding of the control processes, the HIA should identify the organizational objectives, and document control processes and their effectiveness in an organization-wide risk and control matrix. The matrix;

i. Documents identified risks that may affect the ability to achieve organizational objectives.
ii. Indicates the relative significance of risks.
iii. Provides an understanding of key controls in organizational processes.
iv. Understand which controls have been reviewed for design adequacy and deemed to be operating as intended.

b) 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.

c) 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.

The HIA shall identify and communicate directly with key stakeholders to understand their expectations from the IAF whilst providing the stakeholders with a general understanding of internal audit's role and purpose. Through the discussions with stakeholders, the HIA can determine how internal audit can add value to the organization in both the short and long term.

The HIA shall undertake an evaluation of their past performance based on the level/extent of achievement of the previous strategic plan objectives, where applicable. The evaluation shall focus on key result areas, specific objectives, achievements and challenges. The IAF should identify the knowledge gained during implementation of the previous strategic plan which shows how issues were addressed or should be addressed in the future for the purpose of improving future performance.

d) 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.

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

The HIA shall identify strategic issues arising from the situational, stakeholder and past performance analyses. The strategic issues shall form the basis of formulating strategic goals, key result areas and strategies to realize the IAF's vision and mission.

f) 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. The framework will aid the IAF in the early detection of any deviations and consideration of emerging issues for adjustments. The HIA should also incorporate a comprehensive risk management approach into the strategy by ensuring that risks are identified on time and mitigation measures promptly implemented.

g) 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.

h) 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;

a) **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.

b) **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. The IAF should identify its strengths and weaknesses by assessing internal variables such as resource probabilities, skills, competencies, structure and culture that affects its service delivery. The IAF should further undertake stakeholder mapping and analysis in order to understand the role and expectation of the stakeholder and vice versa.

c) **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.

d) **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;

   i. **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.

   ii. **Mission statement** - The Mission articulates how the Internal Audit aims to achieve the vision.

   iii. **Values** - The values should articulate the guiding principles which underscore 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.

   iv. **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.

e) **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.

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

g) **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.

h) **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. The frequency of review will be determined by the factors outlined below:

a) Changes in the organization's strategy or the maturity of its governance, risk management, and control processes.
b) Changes in the organization's policies and procedures or the laws and/or regulations to which the organization is subject.
c) Changes in members of the board, senior management, or the HIA.
d) Results of internal and external assessments of the IAF.
e) Significant change in the availability of the IAF's resources.
f) Degree of change in the organization's control environment.
g) Evaluation of how the IAF has qualitatively or quantitatively delivered on its strategic plan.

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

2.3 Risk-Based Internal Audit Planning

Standard 9.4 Internal Audit Plan

Requirement

The Chief Audit Executive must create an internal audit plan that supports the achievement of the organization's objectives.

The Chief Audit Executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.

The Chief Audit Executive must discuss the internal audit plan, including significant interim changes, with the board and senior management. The plan and significant changes to the plan must be approved by the board.

Standard 9.4 Internal Audit Plan

Requirement

The Chief Audit Executive must create an internal audit plan that supports the achievement of the organization's objectives.

The internal audit plan must:

- Consider the internal audit mandate and the full range of agreed-to internal audit services.
- Specify internal audit services that support the evaluation and improvement of the organization's governance, risk management, and control processes.
- Consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs, and other high-risk areas.
- Identify the necessary human, financial, and technological resources necessary to complete the plan.
- Be dynamic and updated timely in response to changes in the organization's business, risks operations, programs, systems, controls, and organizational culture.

The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:

- The impact of any resource limitations on internal audit coverage.
- The rationale for not including an assurance engagement in a high-risk area or activity in the plan.
- Conflicting demands for services between major stakeholders, such as high-priority requests based on emerging risks and requests to replace planned assurance engagements with advisory engagements.
- Limitations on scope or restrictions on access to information.

The chief audit executive must discuss the internal audit plan, including significant interim changes, with the board and senior management. The plan and significant changes to the plan must be approved by the board.

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. The figure 3 below provides critical steps to be undertaken when developing the IAF's annual plan;

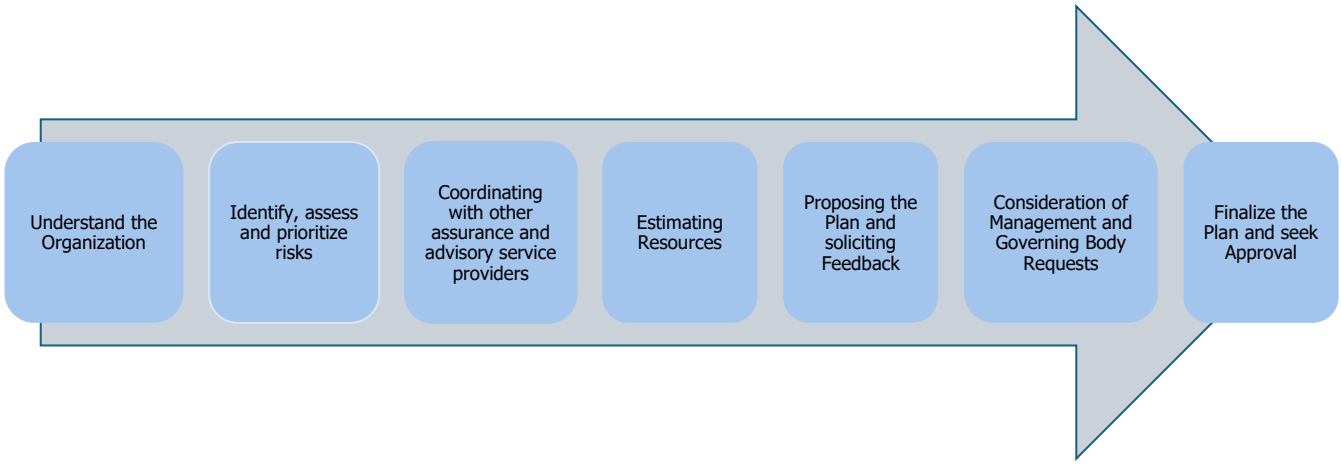


Figure 3: Annual Planning Process

a) Understanding the Organization

To add value and improve an organization's success, IAF priorities should be aligned with the organization's objectives and risks. The HIA must have an in-depth understanding of the organization's strategies, objectives, processes and key risks through;

i. 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.

ii. attending meetings with the governing body and key governance committees.

iii. 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).

iv. 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.

b) 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; and each engagement's potential benefits to the organization, such as the engagement's potential to contribute to the improvement of the organization's governance, risk management, and control processes.

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;

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

ii. Group the audit universe into manageable audit areas.

iii. Undertake risk identification and assessment of the auditable areas.

iv. Prioritization of the audit assignment based on various risk assessment approaches and available resources.

c) Coordinating with Other Assurance and Advisory Services Providers

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. In mature and highly regulated organizations, some significant-risk areas may be controlled effectively by the first line and may have sufficient assurance coverage provided by the second line, such as risk management and compliance functions, as well as additional coverage by external auditors. To make the best use of the valuable resources, the HIA must coordinate activities, share information, and consider relying upon the work of other internal and external assurance and advisory service providers.

d) Estimating Resources

The HIA must obtain and deploy financial, human, and technological resources effectively to implement the plan. Resources include people (e.g., labor hours and skills), technology (e.g., audit tools and techniques), timing/schedule and funding. The HIA must estimate the scope of engagements and the skills, time, and budget that will be needed to perform those engagements. The HIA should consider the nature and complexity of each engagement, the resources spent on comparable engagements that were performed previously, and the date of the most recent audit of the area or process. Investments of internal audit resources in advisory engagements should also be reflected in the internal audit budget and plan.

e) 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. The HIA should implement a standard process for the mutual review of the plan and consider consulting with specific committees, such as those responsible for risk management, compliance, ethics, and others. In discussions, the HIA should communicate the results of the risk assessment, how the significant risks could affect the organization's objectives, and how the results help determine the plan of audit engagements.

f) Consideration of Governing Body and Management Requests

During the meetings with governing body and senior management, the HIA should address any concerns that may arise. This includes 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. These services form opportunities for the IAF to provide advice that will lower the likelihood of risk occurrences in the future. Thus, the HIA should reserve a percentage of their audit plan to perform requested advisory engagements as well as ad hoc engagements that arise between the time of the risk assessment and plan revisions.

g) 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. The Audit committee meeting also gives the HIA an opportunity to explain the budget and its relationship to assurance

coverage, noting any significant gaps. The audit committee may suggest adjustments to the plan based on its view of the organization's risk landscape.

On a quarterly basis the HIA shall provide progress reports to the governing body and Management on the implementation of the plan and budget (reviews, adjustments and re-allocations). 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.

a) 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;

i. **Risk assessment**: Based on the results of the Entity's Risk Assessment process, the HIA shall establish the high-risk areas that need to be audited from the audit universe (all processes or functions that can be audited). Where the entity has not undertaken a risk assessment, the HIA shall facilitate the process and have management validate the results. This enables the HIA to focus the audit on high-risk areas instead of all the areas in the audit universe.

ii. **Budgetary Allocation**: the HIA shall review the entity's strategic plan, annual budget, annual work plan, performance contract and other relevant literature to establish areas that will be allocated significant funding. Such areas are considered to be of higher risk compared to those that receive less funding.

iii. **Areas of Management Concern**: the HIA shall engage the Management to establish areas that they would like the Internal Audit to focus on in the upcoming year. This may include areas that are: experiencing significant changes like process re-engineering, policy changes, automation, new policies and procedures; high staff turnover; weak performance and controls.

iv. **Significant organizational Changes**: the HIA shall engage the audit client to determine significant changes in systems, processes and staff; new and emerging issues and the impact they have on the achievement of objectives and management of key risks.

v. **Results of Prior Audits**: the HIA shall review the outcome of previous Internal, external, ISO audits and other audits to identify areas that had significant weak governance, risk management and controls systems and processes and consider them for inclusion in the current annual audit plan. The HIA shall also consider: feedback from management on the implementation of audit recommendations; and the time lapse since an area was last audited.

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.

b) Specific Risk Approach

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

i. **Understanding the processes and objectives** – have an understanding of the entity and unit, function, activities, or processes.

ii. **Identifying risks** - The external or internal sources of risks are identified and categorized in accordance with the entity's risk management policy (e.g., strategic, financial, operational, regulatory and reputational). Information on risks can be gathered from interviews of Management; consulting external audit; reviewing recent audit reports; planning documents such as budgets, strategic plan etc; the external environment; and other stakeholders.

iii. **Analysing the risks** - Individual risks are profiled by combining the estimated risk likelihood and impact to give the significance of each risk. Where management has implemented a risk management framework, Internal Auditors should make use of risk assessment conducted by management in developing Internal Audit plans if only the risk management processes are effective. A risk control matrix can be used to analyse the risks at two levels to arrive at a consensus of the risk rating.

   a. Inherent risk assessment level – Risks are identified and assessed before considering the controls management has put in place.

   b. Residual risk assessment level – The controls to mitigate the risks are mapped and their effectiveness considered in determining the residual risk rating based on management's perception and the auditor's professional judgement.

In accordance with the entity's risk management policy, risks may be measured as high, medium or low where:

i. **High**- A fundamental objective is not met or there is a critical weakness in controls. Resolution would help avoid a potentially critical negative impact involving loss of material assets, reputation, critical financial information, or ability to comply with the laws, policies, or procedures. Governing body and management attention is required.

ii. **Medium** - An important objective is not met or there is a significant weakness in controls. Resolution would help avoid a potentially significant negative impact on the unit's assets, financial information, or ability to comply with laws, policies, or procedures. Management attention is required.

iii. **Low** - Objectives are mostly met but further enhancement of the control environment is possible. Resolution would help improve controls and avoid problems in the unit's operations.

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.*** The resultant risk rating classifications will inform the ranking, frequency and scheduling of audit engagements for the year. HIAs are advised to refer to the annual internal audit plan template for further guidance.

Illustrations 1, 2 and 3 have been provided as an Appendix to this Manual to guide the HIA in determining the areas to audit in a financial year. 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 engagements 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:

a) **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.

b) **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. In addition, information on the due diligence and thoroughness of internal audit's planning policies and approach, with basic descriptions of the processes used to establish the audit universe, perform the risk assessment, coordinate assurance coverage, and staff the plan shall be provided. Any changes in policies and procedures may be highlighted.

c) **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.

d) 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.

e) **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 eg training (capacity building), strategic activities, contingencies, ad hoc requests.

f) The next set of engagements that would have been performed if additional resources were available should also be included. Discussion regarding these engagements may help the entity assess the adequacy of resources available to the internal audit function.

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

h) **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. The HIA should document the agreed upon criteria and protocol in the organization's IAF Manual. The significant changes may include cancelling or postponing engagements related to significant risks or critical strategic objectives. If risks arise that necessitate revisions to the plan before a formal discussion with the board can be scheduled, the board should be informed of the changes immediately, and a formal approval should occur as soon as possible.

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

2.4 Coordination and Reliance

Standard 9.5 Coordination and Reliance

Requirement

The Chief Audit Executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers.

If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board.

When the internal audit function relies on the work of other assurance service providers, the Chief Audit Executive must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function.

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. Internal providers of assurance and advice include functions that may report to or be part of senior management, such as compliance, environmental, financial control, health and safety, information security, legal, risk management, and quality assurance. External assurance providers may report to senior management, external stakeholders, or the HIA.

The HIA should evaluate other providers of assurance and advisory services to determine the basis for relying upon their work. The evaluation should consider the providers' roles, responsibilities, organizational independence, competency, and objectivity, as well as the due professional care applied to their work. The HIA should understand the objectives, scope, and results of the work performed.

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.

The HIA should understand the objectives, scope, and results of the work performed. Examples of coordinating activities may include:

a) Synchronizing the nature, extent, and timing of planned work.
b) Establishing a common understanding of assurance techniques, methods, and terminology.
c) Providing access to one another's work programs, workpapers, and reports.
d) 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.
e) Combining results for joint reporting.
f) Using management's risk management information to provide joint risk assessments.

g) Creating a shared risk register or list of risks

Coordination with other assurance providers could be undertaken through;

a) 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. The assurance map links identified significant risk categories with relevant sources of assurance and provides an evaluation of the level of assurance for each risk category. Because the map is comprehensive, it exposes gaps and duplications in assurance coverage, enabling the HIA to evaluate the sufficiency of assurance services in each risk area. The results can be discussed with the other assurance providers so that the parties may reach an agreement about how to coordinate activities.
b) 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.

Co-ordination and Reliance Template has been provided on PSASB website www.psasb.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.

The HIA shall determine, obtain, deploy and manage the financial, human and technological resources required in implementing the Internal Audit Function's Strategy and achievement of its plan and mandate.

2.5.1 Financial Resource Management

Standard 10.1 Financial Resource Management
Requirement
The chief audit executive must manage the internal audit function's financial resources.

The chief audit executive must develop a budget that enables the successful implementation of the internal audit strategy and achievement of the plan. The budget includes the resources
necessary for the function's operation, including training and acquisition of technology and tools. The chief audit executive must manage the day-to-day activities of the internal audit function effectively and efficiently, in alignment with the budget.

The chief audit executive must seek budget approval from the board. The chief audit executive must communicate promptly the impact of insufficient financial resources to the board and senior 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. Periodically, the HIA should review the planned budget compared to the actual budget and analyze significant variances to determine whether adjustments are needed. The budget may include reserves for unexpected but necessary changes to the internal audit plan. If significant additional resources are needed due to unforeseen circumstances, the HIA should request for the additional required resources from the Governing Body and senior management.

2.5.2 Human Resources Management

Standard 10.2 Human Resources Management
Requirement
The chief audit executive must establish an approach to recruit, develop, and retain internal auditors who are qualified to successfully implement the internal audit strategy and achieve the internal audit plan.

The chief audit executive must strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. Appropriate refers to the mix of knowledge, skills, and abilities; sufficient refers to the quantity of resources; and effective deployment refers to assigning resources in a way that optimizes the achievement of the internal audit plan.

The chief audit executive must communicate with the board and senior management regarding the appropriateness and sufficiency of the internal audit function's human resources. If the function lacks appropriate and sufficient human resources to achieve the internal audit plan, the chief audit executive must determine how to obtain the resources or communicate timely to the board and senior management the impact of the limitations.

The chief audit executive must evaluate the competencies of individual internal auditors within the internal audit function and encourage professional development. The chief audit executive must collaborate with internal auditors to help them develop their individual competencies through training, supervisory feedback, and/or mentoring.

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) The internal audit budget and the cost effectiveness of other methods such as co-sourcing.
c) The options for obtaining the human resources needed to fulfil the internal audit charter and achieve the internal audit plan.
d) Feedback from the Governing Body and senior management on the approach.
e) Succession planning for the internal audit staff including discussions with the governing body.
f) Collaborating with the human resources function to develop job specifications or descriptions that align with Standard 3.1 Competency and relevant professional competency frameworks.
g) The benefits of recruiting internal auditors with diverse backgrounds, experiences, and perspectives and creating an inclusive work environment that allows for effective collaboration and sharing of diverse views.
h) Participation in recruitment activities as per established procedures.
i) Methodologies for training, monitoring compliance with CPD requirements and implementation of competency frameworks such as the IIA Competency Framework.
j) Evaluating performance, improving competencies, and promoting the professional development of internal auditors.
k) Cultivating an ethical, professional environment in which internal auditors are trained adequately and collaborate effectively as per ethical and professionalism requirements.
l) The number of internal auditors and productive work hours available.
m) The ability to rely on the work of other assurance providers.

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.

Standard 10.3 Technological Resources
Requirement
The chief audit executive must strive to ensure that the internal audit function has technology to support the internal audit process. The chief audit executive must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.

When implementing new technology, the chief audit executive must implement appropriate training for internal auditors in the effective use of technological resources. The chief audit executive must collaborate with the organization's information technology and information security functions to implement technological resources properly.

The chief audit executive must communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the board and senior management.

To determine the technological resources required to perform IAF responsibilities, the HIA should:

a) Assess the feasibility of acquiring and implementing technology-enabled enhancements across the internal audit function's processes.
b) Collaborate with other departments on shared governance, risk, and control management systems.
c) Present sufficiently supported technology funding requests to the board and senior management for approval.
d) Develop and implement plans to introduce approved technologies. Plans should include training internal auditors and demonstrating the realized benefits to the board and senior management.
e) Identify and respond to the risks that arise from technology use, including those related to information security and privacy of individual data.
f) Benchmark with other IAFs that have automated their internal audit processes.

2.6 Communication and Stakeholder Relationships

Principle 11: Communicate Effectively

The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.

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. The HIA is responsible for helping the IAF establish ongoing communication and oversees the function's formal communication with the Governing Body and senior management to enable quality and provide insights based on the results of internal audit services.

2.6.1 Building relationships and communicating with stakeholders

Standard 11.1 Building relationships and communicating with stakeholders

Requirement

The chief audit executive must develop an approach for the internal audit function to build relationships and trust with key stakeholders, including the board, senior management, operational management, regulators, and internal and external assurance providers and other consultants.

The chief audit executive must promote formal and informal communication between the internal audit function and stakeholders, contributing to the mutual understanding of:

- Organizational interests and concerns.
- Approaches for identifying and managing risks and providing assurance.
- Roles and responsibilities of relevant parties and opportunities for collaboration.
- Relevant regulatory requirements.
- Significant organizational processes, including financial reporting.

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 your stakeholder and their needs.
b) Develop and refine an understanding of stakeholder needs
c) Develop a stakeholder engagement plan which should be evaluated on a regular basis (at least annually or when there is a significant change to the business, key processes, or organisational structure arrangements).
d) Assign responsibility for specific stakeholders to members of the internal audit team.
e) Articulate the various engagement strategies.
f) Inform internal audit staff of the mechanisms of the stakeholder relationship program, including how it will operate, their roles, and knowledge management arrangements.
g) Build and maintain effective working relationships with each stakeholder.
h) Utilise the insights obtained through stakeholder engagements to expand the audit universe, enhance risk-based audit planning, prioritise audit engagements, and report emerging risks and issues to the audit committee periodically.

2.6.2 Effective communication

Standard 11.2 Effective Communication

Requirements

The chief audit executive must establish and implement methodologies to promote accurate, objective, clear, concise, constructive, complete, and timely internal audit communications.

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.

Communication methodologies should consider the expectations of the Governing Body, senior management, and other relevant stakeholders (*Refer to Chapter 1 and 3 for further information*). The

HIA may provide training to internal auditors through opportunities for writing or preparing presentations of final communications.

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, and that all members are supported in identifying and participating in ongoing 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) Arranging for management to be available as necessary to discuss specific agenda items with the committee during meetings.
g) Write up the minutes of the audit committee meetings and reports;
h) Advising the Committee on matters relating to governance, risk management and controls.
i) Ensuring action points of governing body are taken forward between meetings.
j) Preparation of Audit Committee reports.
k) 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 engagement work, communicating engagement results and monitoring implementation of action plans. Internal audit services include providing assurance, advice, or both. Internal auditors shall apply and conform to the Standards and Topical requirements and comply with the relevant laws when performing engagements. Internal auditors should use Global guidance as issued by the IIA in performing internal audit services.

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 shall evaluate the differences to determine whether there are reportable findings and to provide a conclusion about the engagement results, including reporting when processes are effective.

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. When performing advisory services, internal auditors shall maintain objectivity by not taking on management responsibility. If the HIA takes on responsibilities beyond internal auditing, then appropriate safeguards shall be implemented to maintain the internal audit function's independence.

The HIA may delegate appropriate responsibility to other qualified professionals in the internal audit function but retains ultimate accountability.

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 shall conform with the relevant topical requirements when the scope of an engagement includes one of the identified topics and shall 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.

Global Technology Audit Guides (GTAG) provide auditors with the knowledge to perform assurance or advisory services related to an organization's information technology and information security risks and controls.

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

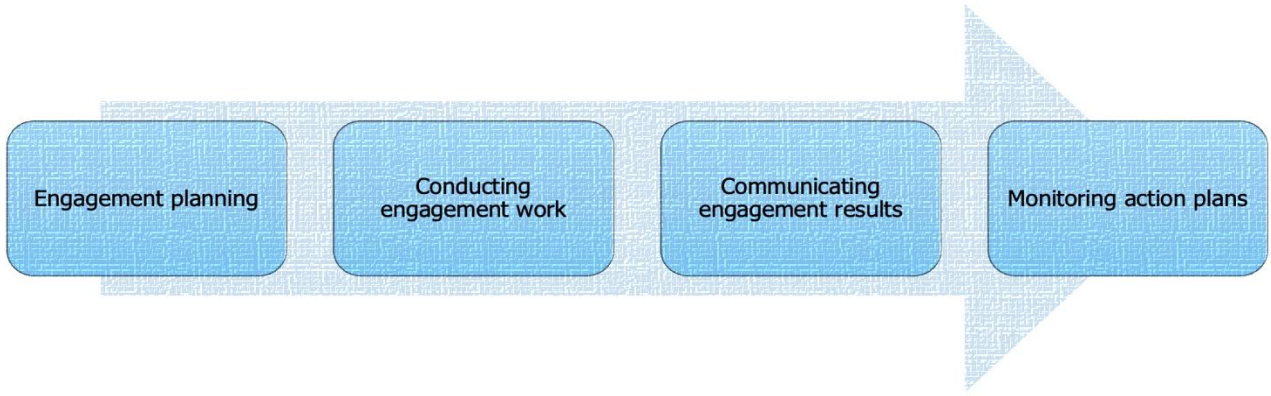


Figure 4: Internal Audit process

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 engagement risk assessment shall allow internal auditors to identify and prioritize the risks to determine the engagement objectives and scope. Internal auditors shall also identify the criteria and resources needed to perform the engagement and develop an engagement work program, which describes the specific engagement steps to be performed.

Internal auditors shall develop and document a plan for each engagement, describing the overall audit engagement strategy including the engagement's objectives, scope, timing, and resource allocations. 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.

Figure 5 below provides an overview of the engagement planning activities that may be performed concurrently.

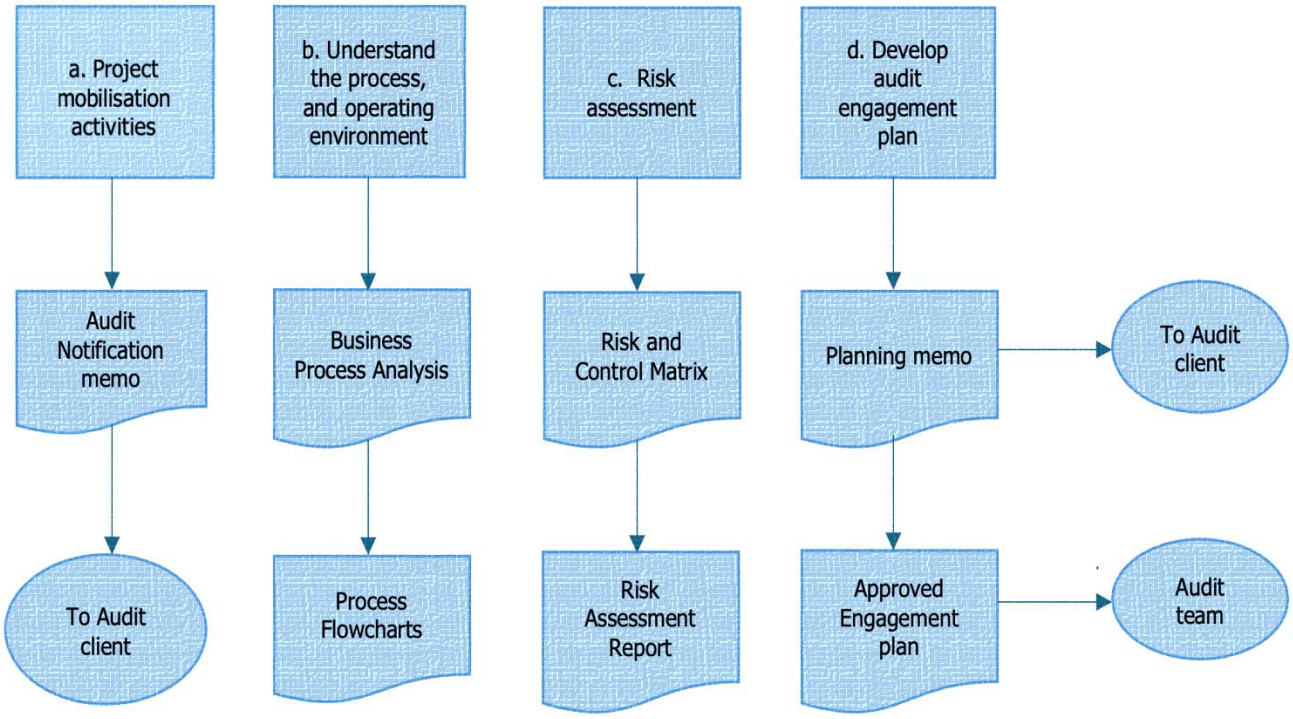


Figure 5 Overview of Engagement Planning Activities

a) Project mobilization activities entails:

i. Confirming that the audit is in the approved work plan and the resources are available.
ii. Assembling the audit team.
iii. Determining the scope and objectives.
iv. Determining audit delivery timelines
v. Generating a list of preliminary requirements.

b) 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.

c) Engagement Risk Assessment entails:

i. Identification and rating of risks and controls.
ii. Prioritizing risks.

d) Developing an engagement plan entails:

i. Document the engagement plan
ii. 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

Standard 13.1 Engagement Communication

Requirement

Internal auditors must communicate effectively throughout the engagement. (See also Principle 11 Communicate Effectively and its related standards and Standard 15.1 Final Engagement Communication.)

Internal auditors must communicate the objectives, scope, and timing of the engagement with management. Subsequent changes must be communicated with management timely. (See also Standard 13.3 Engagement Objectives and Scope.)

At the end of an engagement, if internal auditors and management do not agree on the engagement results, internal auditors must discuss and try to reach a mutual understanding of the issue with the management of the activity under review. If a mutual understanding cannot be reached, internal auditors must not be obligated to change any portion of the engagement results unless there is a valid reason to do so. Internal auditors must follow an established methodology to allow both parties to express their positions regarding the content of the final engagement communication and the reasons for any differences of opinion regarding the engagement results. (See also Standards 9.3 Methodologies and 14.4 Recommendations and Action Plans.)

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. To ensure effective communication, a variety of methods should be used: formal, informal, written, and oral. Engagement communications may occur through scheduled meetings, presentations, emails and other documents, and informal discussions. Requirements for the quality and content of engagement communications should be established by the Head of Internal Audit in alignment with the expectations of the governing body and senior management and documented in internal audit methodologies.

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. This ongoing communication provides transparency and helps internal auditors and the management of the activity identify and resolve any misunderstandings or differences.

3.2.2 Engagement Risk Assessment

Standard 13.2 Engagement Communication

Requirement

Internal auditors must develop an understanding of the activity under review to assess the relevant risks. For advisory services, a formal, documented risk assessment may not be necessary, depending on the agreement with relevant stakeholders.

To develop an adequate understanding, internal auditors must identify and gather reliable, relevant, and sufficient information regarding:

- The organization's strategies, objectives, and risks relevant to the activity under review.
- The organization's risk tolerance, if established.
- The risk assessment supporting the internal audit plan.
- The governance, risk management, and control processes of the activity under review.
- Applicable frameworks, guidance, and other criteria that can be used to evaluate the effectiveness of those processes.

Internal auditors must review the gathered information to understand how processes are intended to operate.

Internal auditors must identify the risks to review by:

- Identifying the potentially significant risks to the objectives of the activity under review.
- Considering specific risks related to fraud.
- Evaluating the significance of the risks and prioritizing them for review.
- Internal auditors must identify the criteria that management uses to measure whether the activity is achieving its objectives.

When internal auditors have identified the relevant risks for an activity under review in past engagements, only a review and update of the previous engagement risk assessment is required.

A detailed risk assessment shall 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 by reviewing:

a) The reliability of Management's assessment of risk.
b) Management's process for monitoring, reporting, and resolving risk and control issues.
c) Management's reporting of events that exceeded the limits of the risk appetite and its response to those events.
d) Risks in related activities relevant to the activity under review.

Where Management has not conducted risk assessment or documented the process, then the internal auditor shall conduct a detailed risk assessment. The assessment shall seek to:

a) Identify the risks associated with the achievement of the audit client's objectives and expected results, including prevention of fraud.

b) Assess the relative significance of the risks in terms of likelihood and impact.
c) Determine whether Management's assertions or its plan of controls are likely to prevent or mitigate the occurrence of the identified risks, particularly key 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**; This risk should be addressed by proper audit "scoping" during the planning process.
b) **Conflict of interest may impair objectivity and undermine the audit results;** In mitigation, any threat to independence and objectivity must be disclosed at the planning stage or any other time and safeguards taken.
c) **The audit may not meet the expectations of the users**; This should be addressed by thorough audit planning, continuous reference to the plan and audit objectives and discussions with management throughout audit testing.
d) **Inadequate audit testing and evidence hence incorrect audit conclusions**; Close supervision during audit execution will provide timely and invaluable feedback and direction to the audit team.
e) **Lack of professional competency to keep up with emerging trends**; The HIA should continuously make arrangements for the training of Internal Auditors to enhance their skills and to keep them current with the trends in the Internal Audit profession and standards.
f) **Audit recommendations are not implemented;** Internal auditor should demonstrate value in implementation of recommendations.
g) **Lack of cooperation from audit clients**; This issue must be addressed during the audit planning meeting to obtain commitment from the audit client.
h) **Poor time management by the audit team;** The risk should be mitigated by close supervision of the assignment, improved time plans and management on the part of the auditors.

3.2.3 Engagement Objectives and Scope

Standard 13.3 Engagement Objectives and Scope

Requirement
Internal auditors must establish and document the objectives and scope for each engagement.

The engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations.

The scope must establish the engagement's focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives.

Internal auditors must consider whether the engagement is intended to provide assurance or advisory services because stakeholder expectations and the requirements of the Standards differ depending on the type of engagement.

Scope limitations must be discussed with management when identified, with a goal of achieving resolution. Scope limitations are assurance engagement conditions, such as resource constraints or restrictions on access to personnel, facilities, data, and information, that prevent internal auditors from performing the work as expected in the audit work program. (See also Standard 13.5 Engagement Resources.)

If a resolution cannot be achieved with management, the chief audit executive must elevate the scope limitation issue to the board according to an established methodology.

Internal auditors must have the flexibility to make changes to the engagement objectives and scope when audit work identifies the need to do so as the engagement progresses.

The chief audit executive must approve the engagement objectives and scope and any changes that occur during the engagement.

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.

Internal auditors shall align the engagement objectives with the business objectives of the activity under review, as well as with those of the entity. Properly defining engagement objectives and scope before the engagement starts enables internal auditors to:

a) Focus efforts on the risks relevant to the activity under review based on the results of the engagement risk assessment.
b) Develop the engagement work program.
c) Avoid duplicating efforts or performing work that does not add value.
d) Determine the engagement timeline.
e) Allocate appropriate and sufficient resources to complete the engagement.
f) Communicate clearly with senior management and the Governing body.

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 laws and regulations, policies, plans, and procedures.
c) Reporting accurate and reliable information.
d) Effective and efficient use of resources .
e) Safeguarding of 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.

Internal auditors should consider whether requests from the engagement stakeholders for items to be included in or excluded from the scope, or restrictions on the length of the engagement, constitute a scope limitation.

3.2.5 Evaluation Criteria

Standard 13.4 Evaluation Criteria

Requirement

Internal auditors must identify the most relevant criteria to be used to evaluate the aspects of the activity under review defined in the engagement objectives and scope. For advisory services, the identification of evaluation criteria may not be necessary, depending on the agreement with relevant stakeholders.

Internal auditors must assess the extent to which the board and senior management have established adequate criteria to determine whether the activity under review has accomplished its objectives and goals. If such criteria are adequate, internal auditors must use them for the evaluation. If the criteria are inadequate, internal auditors must identify appropriate criteria through discussion with the board and/or senior management.

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. Internal auditors use professional judgement to determine whether the entity's criteria are adequate. Adequate criteria are relevant, aligned with the objectives of the entity and the activity under review, and produce reliable comparisons.

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 shall ascertain whether the entity has adopted or clearly articulated a satisfactory level of control.

The auditor shall review and discuss the proposed audit criteria with the audit client, particularly when there are no generally accepted criteria. Internal auditors may assist management in determining adequate criteria or may seek input from experts to help identify or develop relevant criteria.

When the criteria used by the activity under review are inadequate or non-existent, internal auditors may recommend that management implement the criteria identified by the internal auditors. The discussion about the lack of adequate criteria may lead to a decision to provide advisory services.

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.

3.2.6 Engagement Resources

Standard 13.5 Engagement Resources

Requirement

When planning an engagement, internal auditors must identify the types and quantity of resources necessary to achieve the engagement objectives.

Internal auditors must consider:

- The nature and complexity of the engagement.
- The time frame within which the engagement is to be completed.
- Whether the available financial, human, and technological resources are appropriate and sufficient to achieve the engagement objectives.

If the available resources are inappropriate or insufficient, internal auditors must discuss the concerns with the chief audit executive to obtain the 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. To determine the type and quantity of resources needed for an engagement, the engagement supervisor should understand the information gathered and developed throughout engagement planning, paying special attention to the nature and complexity of work to be performed. The supervisor applies professional judgment to assign resources based on the steps identified in the work program to achieve the engagement objectives and the time that each step is expected to take. It is important to consider constraints that may affect the engagement's performance, such as the number of hours budgeted, timing and logistics.

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. The HIA is responsible for discussing with senior management and the governing body the implications of resource limitations and determining the course of action to take e.g. varying the scope.

To improve the effective utilisation of resources, internal auditors may document the actual resources spent performing the engagement against the budgeted resources. The documentation can be reviewed to improve future resource planning.

3.2.7 Engagement Work Program

Standard 13.6 Engagement Work Program

Requirement

Internal auditors must develop and document an engagement work program to achieve the engagement objectives.

The engagement work program must be based on the information obtained during engagement planning, including, when applicable, the results of the engagement risk assessment.

The engagement work program must identify:

- Criteria to be used to evaluate each objective.
- Tasks to achieve the engagement objectives.
- Methodologies, including the analytical procedures to be used, and tools to perform the tasks.
- Internal auditors assigned to perform each task.

The chief audit executive must review and approve the engagement work program before it is implemented and promptly when any subsequent changes are made.

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. For advisory services, the work program shall be developed in collaboration with the stakeholders who requested the service.

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.

Internal auditors may develop the work program by linking the risks and controls identified during the engagement risk assessment with a testing approach to be implemented. As analyses and evaluations are conducted, internal auditors may link the risks and controls to the findings and conclusions. The work program may be updated during conducting the engagement phase and any changes shall be approved by the HIA.

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. However, the most appropriate time to perform this evaluation depends on the nature of the engagement. If it is not completed during planning, the control design evaluation may occur as a specific stage of engagement performance, or internal auditors may evaluate the control design while performing tests of the effectiveness of the controls.

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

Template Title
Audit Notification
Engagement plan which includes engagement work program and Business Risk Assessment /Risk and control matrix
Planning memorandum/Kick off agenda
Request for Audit Information
Information Request Monitoring Checklist
Business Process Analysis form (including Standard Flow Charts Symbols & Narratives, Risk and Control Matrix)

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

Figure 6 below provides an overview of conducting the engagement phase.

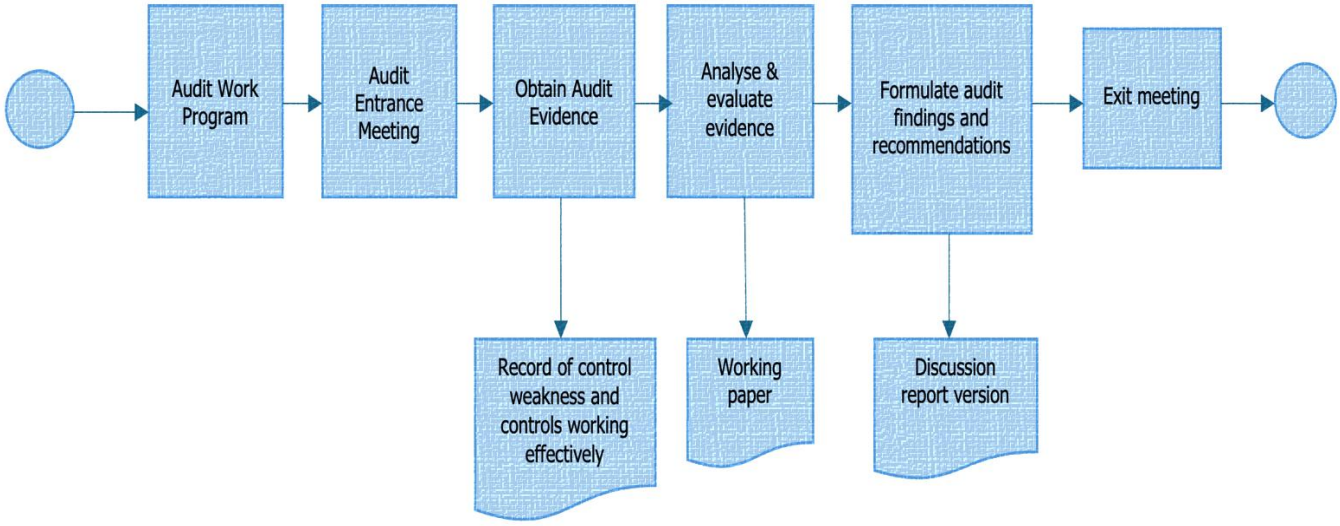


Figure 6 Overview of Conducting the Engagement Phase

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. This discussion provides an opportunity for internal auditors to confirm that the management of the activity under review understands and supports the objectives, scope, and timing of the engagement. The discussion allows the parties to make any necessary adjustments to the engagement approach and establish the expectations for additional communication, including the frequency of communication and who will receive the final communication. Internal auditors shall document this discussion in form of entrance meeting minutes which should be part of the engagement work papers.

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. **Illustration 4 of opening/entrance meeting agenda** has been provided as an Appendix to this Manual. Minutes of the Audit Opening/Entrance Meetings should be taken by the

internal audit team, circulated appropriately within reasonable time and maintained as part of the workpapers.

3.3.2 Gathering Information for Analyses and Evaluation

Standard 14.1 Gathering Information for Analyses and Evaluation

Requirement

To perform analyses and evaluations, internal auditors must gather information that is:

- Relevant – consistent with engagement objectives, within the scope of the engagement, and contributes to the development of engagement results.
- Reliable – factual and current. Internal auditors use professional skepticism to evaluate whether information is reliable. Reliability is strengthened when the information is:
  - Obtained directly by an internal auditor or from an independent source.
  - Corroborated.
  - Gathered from a system with effective governance, risk management, and control processes.
- Sufficient – when it enables internal auditors to perform analyses and complete evaluations and can enable a prudent, informed, and competent person to repeat the engagement work program and reach the same conclusions as the internal auditor.

Internal auditors must evaluate whether the information is relevant and reliable and whether it is sufficient such that analyses provide a reasonable basis upon which to formulate potential engagement findings and conclusions. (See also Standard 14.2 Analyses and Potential Engagement Findings.)

Internal auditors must determine whether to gather additional information for analyses and evaluation when evidence is not relevant, reliable, or sufficient to support engagement findings. If relevant evidence cannot be obtained, internal auditors must determine whether to identify that as a finding.

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**; selection of a transaction to test is not governed by predetermined consideration and thus every unit in the population has an equal probability/chance of being selected for testing.
b) **Systematic (interval) sampling**; is a type of probability sampling method in which sample members from a larger population are selected according to a random starting point and a fixed periodic interval. This interval, called the sampling interval, is calculated by dividing the population size by the desired sample size.
c) **Stratified sampling**; the population is divided into separate groups, called strata. Then, a probability sample (often a simple random sample) is drawn from each group.
d) **Attribute sampling**; used to determine the characteristics of a population being evaluated.
e) **Variable sampling**; used to determine the monetary impact of characteristics of a population.
f) **Discovery sampling**; used where evidence of a single error or instance would call for intensive investigation.
g) **Judgmental sampling**; is a type of non-random sample that is selected based on the opinion of the Internal Auditor. Results obtained from a judgment sample are subject to some degree of bias, due to the frame and population not being identical.

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.

Determining the number of transactions to test is key in determining if the Internal Auditor has obtained sufficient audit evidence to support achievement of the engagement objective. In determining the amount of data/information needed the Internal Auditors has also to consider the efficiency and economy of obtaining the required evidence. This may lead to the Internal Auditor preferring to review a sample instead of the entire population.

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

a) **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.
b) **Population quality**: the variability, volatility and completeness of the population to be tested. The Internal Auditor must establish that population from which the sample is being obtained is appropriate to attain the engagement objectives e.g. when testing payments, the Internal Auditor may prefer to sample transactions from bank transactions compared to a list of payment vouchers.
c) **Population size**: this depends on the frequency of implementing the control/task/activity with those implemented more than once daily having more transactions compared to those implemented at a less frequency e.g. weekly, monthly, or yearly. This will enable the Internal Auditor to establish if the transaction/s to be tested have occurred during the period under review.
d) **Risk and materiality:** rating of risks impacting the area being audited and the significant of achieving/not achieving the objective/s of the area/activity under review.
e) **Available resource**: available tools and techniques where adoption of CAATs will enable the Internal Auditors review a bigger sample of digital data compared to using a Manual process. The proficiency of the Internal Auditors in applying the tools and techniques where more skilled

Internal Auditors will be able to review bigger and complex sample data. The Internal Auditors should consider the time allocated to undertake the engagement to ensure best use of available time. However, the Internal Auditors should refer to the HIA or their supervisors if there is good reason to devote more time to an audit than was originally planned. The Internal Auditors should also assess the cost benefit analysis of analyzing a large sample compared to a smaller one.

f) **Previous assessments outcome**: based on initial assessment of risks and controls during the planning process; outcomes of previous audits by IAF and other assurance providers; and key changes in processes, systems and staff of the area being audited.

g) **Sampling risk**: the risk that the Internal Auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedures. In selecting a sample, the Internal Auditor needs to establish tolerable errors i.e. the maximum number of errors that the Internal Auditor is willing to accept and still reach a conclusion that the underlying assertion is correct. In establishing the tolerable errors, the Internal Auditor needs to consult with the HIA and the process owner. This may also be influenced by prior audit results, changes in processes and evidence/conclusions from other sources.

Where Internal Auditors are in doubt about the size of samples to use, they should discuss this with the HIA or the Auditor leading the engagement. The maximum sample size shall therefore be determined by the internal audit team.

Although there are no established rules about the sample size, **illustrations 5 has been provided** as an Appendix to this Manual that provides a guide that can be adopted by the Internal Auditors in deciding a suitable 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**: The sample may not be large enough to represent the population, which can lead to biased results.

b) **Complete population list**: A complete and up-to-date list of the population may not be available, especially for large populations.

c) **Minority representation**: Minority subgroups within the population may not be present in the sample.

d) **Sampling bias**: When the sample is not representative of the population, the results may be inaccurate or misleading.

e) **External validity**: Sampling bias can limit the generalizability of a study's findings.

f) **Standardized patterns**: If the population has a standardized pattern, there is a risk of accidentally choosing very common cases.

3.3.4 Analyses and Potential Engagement Findings

Standard 14.2 Analyses and Potential Engagement Findings

Requirement

Internal auditors must analyze relevant, reliable, and sufficient information to develop potential engagement findings. For advisory services, gathering evidence to develop findings may not be necessary, depending on the agreement with relevant stakeholders.

Internal auditors must analyze information to determine whether there is a difference between the evaluation criteria and the existing state of the activity under review, known as the "condition." (See also Standard 13.4 Evaluation Criteria.)

Internal auditors must determine the condition by using information and evidence gathered during the engagement.

A difference between the criteria and the condition indicates a potential engagement finding that must be noted and further evaluated. If initial analyses do not provide sufficient evidence to support a potential engagement finding, internal auditors must exercise due professional care to determine whether additional analyses are required.

If additional analyses are required, the work program must be adjusted accordingly and approved by the chief audit executive.

If internal auditors determine that no additional analyses are required and there is no difference between the criteria and the condition, the internal auditors must provide assurance in the engagement conclusion regarding the effectiveness of the activity's governance, risk management, and control processes.

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

a) **Inspection**: reviewing or examining records, processes or properties and comparing with what is expected (this can be defined in the policies, procedures, laws, regulations or standards).
b) **Re-performance**: re-performing the steps/tasks undertaken by the process owner and assessing if the output obtained by the Internal Auditor is similar to that of the process owner.
c) **Vouching**: testing the validity of a transaction or recorded information by following it backwards to a tangible source.
d) **Tracing**: testing the completeness of information by tracking information forward from a tangible source to a subsequent prepared document/report. The difference between vouching and tracing is the direction of the audit procedure i.e. vouching moves backwards from the final document to the source where tracing moves forward from the source to the final document.
e) **Computation**: checking the arithmetic accuracy of accounting records or performing independent calculations.
f) **Confirmation**: soliciting and obtaining written verification of the information from an independent third party e.g., circularization to debtors and suppliers to confirm accounts receivable and payable balances respectively.
g) **Analytical reviews:** to compare actual performance against expectations. Analytical reviews include ratio, trend, and regression analysis; reasonableness tests; period-to-period comparisons; forecasts; benchmarking information against similar sectors or entity units. Internal Auditors may further analyse significant deviations from the expectations (expected

variations which failed to occur or unexpected variations) to determine the cause and/or reasonableness of the variance. The analytical reviews to undertake will depend on the nature, accessibility, and relevance of the data available.

h) **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. Internal auditors exercise due professional care to determine the extent and type of additional procedures that should be used to evaluate the potential findings and determine their cause, effect, and significance. The HIA and the internal audit methodologies may provide guidance for determining whether to perform additional analyses. Considerations include the:

a) Results of the engagement risk assessment, including the adequacy of control processes.
b) Significance of the activity under review and the potential findings.
c) Extent to which the analyses support potential engagement findings.
d) Availability and reliability of information for further evaluation.
e) Costs compared to the benefits of performing additional analyses.

3.3.5 Evaluation of Findings

Standard 14.3 Evaluation of Findings

Requirement

Internal auditors must evaluate each potential engagement finding to determine its significance. When evaluating potential engagement findings, internal auditors must collaborate with management to identify the root causes when possible, determine the potential effects, and evaluate the significance of the issue.

To determine the significance of the risk, internal auditors must consider the likelihood of the risk occurring and the impact the risk may have on the organization's governance, risk management, or control processes.

If internal auditors determine that the organization is exposed to a significant risk, it must be documented and communicated as a finding.

Internal auditors must determine whether to report other risks as findings, based on the circumstances and established methodologies.

Internal auditors must prioritize each engagement finding based on its significance, using methodologies established by the chief audit executive.

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, which often relates to a control deficiency and is a direct reason the condition exists. To the extent feasible, internal auditors should determine the root cause, which is an underlying or deeper issue that contributed to the condition. At its simplest,

determining the root cause involves asking a series of questions about why the difference exists. Identifying the root cause involves collaboration with management, who may be in a better position to understand the underlying causes for the difference.

b) How the impact of the difference may be quantified. The extent of the exposure is an estimate informed by internal auditors' professional judgment with input from the management of the activity under review.

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. Internal auditors prioritize findings based on the methodology established by the HIA to provide consistency across all internal audit engagements. A rating or ranking can be an effective communication tool for describing the significance of each finding and may assist management with prioritizing its action plans. When determining the significance, internal auditors should consider:

a) The impact and likelihood of the risk in line with the entity risk management framework.
b) The risk tolerance.
c) Any additional factors important to the organization.

Illustration 6 of finding ratings has been provided as an Appendix to this Manual.

3.3.6 Recommendations and Action Plans

PFMA, 2012 PFMR, 2015 Requirements

Regulation 171(3) (National Government)/ Regulation 164 (3) (County Government)
an internal auditor shall update the management of the progress of an audit assignment by giving an oral preliminary report which shall be confirmed in writing within seven (7) days and discuss the findings, conclusions and recommendations with the auditee.

Regulation 171(1) (National Government)/ Regulation 164 (1) (County Government)
findings and recommendations arising from each internal audit assignment to be promptly reported to the accounting officers.

Standard 14.4 Recommendations and Action Plans

Requirement
Internal auditors must determine whether to develop recommendations, request action plans from management, or collaborate with management to agree on actions to:

- Resolve the differences between the established criteria and the existing condition.
- Mitigate identified risks to an acceptable level.
- Address the root cause of the finding.
- Enhance or improve the activity under review.

When developing recommendations, internal auditors must discuss the recommendations with the management of the activity under review.

If internal auditors and management disagree about the engagement recommendations and/ or action plans, internal auditors must follow an established methodology to allow both parties to express their positions and rationale and to determine a resolution. (See also Standard 9.3 Methodologies.)

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. Alternatively, internal auditors may present several options for management to consider. In some cases, internal auditors may suggest that management research options and determine the appropriate course of action. A single finding may have multiple recommendations or corrective actions.

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. Internal auditors should work with management on issues raised to develop implementable and cost-effective recommendations to mitigate risks and help ensure the achievement of organizational objectives. Internal auditors should evaluate and discuss with management the feasibility and reasonableness of the recommendations and/ or action plans. The evaluation should include a cost-benefit analysis and determination of whether the recommendations and/or action plans address the risk satisfactorily in accordance with the organization's risk tolerance.

Although internal auditors must collaborate with management on how to address the engagement findings, it is management's responsibility to implement actions to address the findings.

3.3.7 Exit Meeting/Conference (Closing communication)

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. The closing communication provides an opportunity for management and internal auditors to discuss any differences or disagreements about the engagement results with a goal of reaching agreement.

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.
d) The likelihood of the management of the activity under review embracing the audit findings and the proposed recommendations is increased.

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:

a) **The Internal Auditor**: To obtain feedback from the audit client on the accuracy of the audit results; determine if further work needs to be done based on the feedback provided by the audit client; and the performance of the Internal Audit team.
b) **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. The HIA shall ensure minutes of the exit meeting/conference are prepared and distributed appropriately and maintained as part of the workpapers.

3.3.8 Engagement Conclusions

Standard 14.5 Engagement Conclusions

Requirements

Internal auditors must develop an engagement conclusion that summarizes the engagement results relative to the engagement objectives and management's objectives. The engagement conclusion must summarize the internal auditors' professional judgment about the overall significance of the aggregated engagement findings.

Assurance engagement conclusions must include the internal auditors' judgment regarding the effectiveness of the governance, risk management, and/or control processes of the activity under review, including an acknowledgment of when processes are effective.

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.

Illustration 7 of overall rating has been provided as an Appendix to this Manual.

3.3.9 Engagement Documentation

Standard 14.6 Engagement Documentation

Requirements

Internal auditors must document information and evidence to support the engagement results. The analyses, evaluations, and supporting information relevant to an engagement must be documented such that an informed, prudent internal auditor, or similarly informed and competent person, could repeat the work and derive the same engagement results.

Internal auditors and the engagement supervisor must review the engagement documentation for accuracy, relevance, and completeness. The chief audit executive must review and approve the engagement documentation. Internal auditors must retain engagement documentation according to relevant laws and/or regulations as well as policies and procedures of the internal audit function and the organization.

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. The result is a complete collection of documentation of the information obtained, procedures completed, engagement results, and the logical basis for each step. This documentation constitutes the primary source of support for internal auditors' communication with stakeholders, including the board, senior management, and the management of the activity under review. Common workpapers include:

a) Planning documentation.
b) Process map, flowchart, or narrative descriptions of key processes.
c) Summaries of interviews conducted, or surveys issued.
d) Risk and control matrix.
e) Details of tests conducted and analyses performed.
f) Conclusions, including cross-referencing to the workpaper on audit findings.
g) Proposed follow-up engagement work to be performed.
h) 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 format of work papers as described above may also be integrated into internal audit management software for the entity.

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

Template Title
Entrance/Opening Meeting Minutes
Exit Meeting/Conference Agenda
Exit Meeting/Conference Minutes
Workpaper
Engagement findings template
Draft Audit Report

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.

Standard 15.1 Final Engagement Communication

Requirement

For each engagement, internal auditors must develop a final communication that includes the engagement's objectives, scope, recommendations and/or action plans if applicable, and conclusions.

The final communication for assurance engagements also must include:

- The findings and their significance and prioritization.
- An explanation of scope limitations, if any.
- A conclusion regarding the effectiveness of the governance, risk management, and control processes of the activity reviewed.

The final communication must specify the individuals responsible for addressing the findings and the planned date by which the actions should be completed.

When internal auditors become aware that management has initiated or completed actions to address a finding before the final communication, the actions must be acknowledged in the communication.

The final communication must be accurate, objective, clear, concise, constructive, complete, and timely, as described in Standard 11.2 Effective Communication.

Internal auditors must ensure the final communication is reviewed and approved by the chief audit executive before it is issued.

The chief audit executive must disseminate the final communication to parties who can ensure that the results are given due consideration. (See also Standard 11.3 Communicating Results.)

If the engagement is not conducted in conformance with the Standards, the final engagement communication must disclose the following details about the nonconformance:

- Standard(s) with which conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement findings and conclusions.

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** – free from errors and distortions and faithful to the underlying facts. When communicating, internal auditors should use precise terms and descriptions, supported by information gathered. 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.

b) **Objective** – impartial, unbiased, and the result of a fair and balanced assessment of all relevant facts and circumstances. Findings, conclusions, recommendations and/or action plans, and other results of internal audit services should be based on balanced assessments of relevant

circumstances. Communications should focus on identifying factual information and linking the information to objectives. Internal auditors should avoid terms that may be perceived as biased.

c) **Clear** – logical and easily understood by relevant stakeholders, avoiding unnecessary technical language. Clarity is increased when internal auditors use language that is consistent with terminology used in the entity and easily understood by the intended audience. Internal auditors should avoid unnecessary technical language and define important terms that are uncommon or used in a way that is specific or unique to the communication or presentation. Internal auditors improve the clarity of their communications by including significant details that support findings, conclusions, recommendations and/or action plans.
d) **Concise** – free from unnecessary detail and wordiness. Internal auditors should avoid redundancies and exclude information that is unnecessary, insignificant, or unrelated to the engagement or service.
e) **Constructive** – helpful to stakeholders and the entity and enabling improvement where needed. Internal auditors should express information with a cooperative and helpful tone that facilitates collaboration with the activity under review to determine opportunities for improvement.
f) **Complete** – relevant, reliable, and sufficient information and evidence to support the results of internal audit services. Completeness enables one to reach the same conclusions as those reached by internal auditors. Internal auditors should adapt communications to meet the needs of various recipients and consider the information they need to take the actions for which they are responsible. For example, communications to the governing body may differ from those delivered to the management of the activity under review.
g) **Timely** – appropriately timed, according to the significance of the issue, allowing management to take corrective action. Timeliness may be different for each entity and depend upon the nature of the engagement.

Illustration 8 on Contents of a Final Engagement Report has been provided as an Appendix to this Manual.

3.4.2 Errors and omissions

Standard 11.4 Errors and Omissions

Requirements

If a final engagement communication contains a significant error or omission, the chief audit executive must communicate corrected information promptly to all parties who received the original communication.

Significance is determined according to criteria agreed upon with the board.

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

Template Title
Workpaper file Checklist
Final Engagement Communication/Report

3.4.3 Communicating the acceptance of risks

Standard 11.5 Communicating the Acceptance of Risks

Requirements

The chief audit executive must communicate unacceptable levels of risk.

When the chief audit executive concludes that management has accepted a level of risk that exceeds the organization's risk appetite or risk tolerance, the matter must be discussed with senior management. If the chief audit executive determines that the matter has not been resolved by senior management, the matter must be escalated to the board. It is not the responsibility of the chief audit executive to resolve the risk.

The HIA gains an understanding of the organization's 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 organization considers acceptable. If the entity has a formal risk management process, the HIA should understand management's policies and procedures for acceptance of risk.

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. If the HIA determines that the matter has not been resolved by senior management, the matter shall be escalated to the governing body

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.

The requirements of this standard are only implemented when the HIA cannot reach agreement with the management responsible for managing the risk. If the risk identified as unacceptable remains unresolved after a discussion with senior management, the HIA escalates the concern to the governing body. The governing body is responsible for deciding how to address the concern with management.

3.4.4 Confirming the Implementation of Recommendations or Action Plans

PFMA, 2012 PFMR, 2015 Requirements

Regulation 172 (National Government)/ Regulation 165 (County Government)

Regulation 172(1) "The accounting officer of the concerned entity shall be responsible for the implementation of the recommendations made in the audit reports and shall develop response and action plan which he or she shall submit to the Chairperson of the audit committee within fourteen days.

(2) The response and action plan submitted to chairperson of the audit in paragraph (1) of this regulation shall be submitted to the Audit Committee for follow up to ensure their implementation"

Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

Requirements

Internal auditors must confirm that management has implemented internal auditors' recommendations or management's action plans following an established methodology, which includes:

- Inquiring about progress on the implementation.
- Performing follow-up assessments using a risk-based approach.
- Updating the status of management's actions in a tracking system.

The extent of these procedures must consider the significance of the finding.

If management has not progressed in implementing the actions according to the established completion dates, internal auditors must obtain and document an explanation from management and discuss the issue with the chief audit executive. The chief audit executive is responsible for determining whether senior management, by delay or inaction, has accepted a risk that exceeds the risk tolerance. (See also Standard 11.5 Communicating the Acceptance of Risks.)

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. In addition, a program or system may automate the workflow from risk assessment to action plan completion.

Confirmation of the implementation of management's action plans should include criteria for determining when to perform follow-up assessments to confirm that management's action plans have effectively addressed findings. Follow-up assessments may be performed for completed action plans selectively, depending on the risk's significance. Under certain circumstances, regulators may require reporting on management's action plans.

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 format of the Action Plan Monitoring and Reporting templates may be integrated into internal audit management software for the entity.

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

Template Title
Action Plan Monitoring
Action Plan Reporting

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.

a) **Internal Audit Quarterly Reports**

The quarterly reports will include information on:

i. Work performed in comparison with the approved Risk Based Annual Work Plan;
ii. Key issues emerging from Internal Audit work.
iii. Management action plan to key audit findings and recommendations.
iv. Major limitations affecting the achievement of Internal Audit objectives.
v. A report on cooperation between internal audit and other assurance providers.
vi. Internal and External Quality Assurance reports on the Internal Audit function if any
vii. Funding: utilization vs approved budget, impact of lack of adequate resources on the achievement of the approved risk based annual audit plan and the resultant risk exposure. This may be done semi-annually.
viii. Staffing

b) **Internal Audit Annual Reports**

The HIA shall prepare an annual report that consolidates the quarterly audit assurance reports (considering only assurance engagements) prepared by the Internal Audit function.
The annual reports will include information on:

i. **Overall status of governance, risk management and controls**: this summarizes the quarterly reports.
ii. **Other assurance providers'** findings and status of implementation of corrective actions**.**
iii. **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.

iv. **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.
v. **Resources**: Financial, Human, and Technological.
vi. **Quality Assurance and Improvement Program**: results of internal or external quality assessments.
vii. **Organizational independence** of the Internal Audit function
viii. Conformance with the *Standards*, compliance with relevant laws, and action plans to address any significant conformance/noncompliance issues.
ix. Management's response to risk that, in the HIA's judgment, may be unacceptable to the entity.

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

Template Title
Quarterly Reporting Template
Annual reporting Template

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.

Standard 8.3 Quality

Requirements

The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments:

- External assessments.
- Internal assessments. At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include:
- The internal audit function's conformance with the Standards and achievement of performance objectives.
- If applicable, compliance with laws and/or regulations relevant to internal auditing.
- If applicable, plans to address the internal audit function's deficiencies and opportunities for 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.

The QAIP includes two types of assessments:

a) Internal quality assessments.
b) 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.

PFMA, 2012 PFMR, 2015 Requirements

Regulation 166(1) (National Government)/ Regulation 159(1) (County Government)

Each year, the IAF shall assess its own effectiveness through an internal performance appraisal and shall carry out annual review of the performance of the Internal Audit function commenting on its effectiveness in the annual report to the National Treasury for National Government Entities and County Treasury for County Government Entities.

Regulation 166(2) (National Government)/ Regulation 159(2) (County Government)

Each year the Audit Committee shall carry out annual review of the independence, performance and competency of the internal audit unit and comment on their effectiveness in the internal audit report.

Standard 12.1 Internal Quality Assessment

Requirements

The chief audit executive must develop and conduct internal assessments of the internal audit function's conformance with the Global Internal Audit Standards and progress toward performance objectives.

The chief audit executive must establish a methodology for internal assessments, as described in Standard 8.3 Quality, that includes:

- Ongoing monitoring of the internal audit function's conformance with the Standards and progress toward performance objectives.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards.
- Communication with the board and senior management about the results of internal assessments.

Based on the results of periodic self-assessments, the chief audit executive must develop action plans to address instances of nonconformance with the Standards and opportunities for improvement, including a proposed timeline for actions. The chief audit executive must
communicate the results of periodic self-assessments and action plans to the board and senior management. (See also Standards 8.1 Board Interaction, 8.3 Quality, and 9.3 Methodologies.)

Internal assessments must be documented and included in the evaluation conducted by an independent third party as part of the organization's external quality assessment. (See also Standard 8.4 External Quality Assessment.)

If nonconformance with the Standards affects the overall scope or operation of the internal audit function, the chief audit executive must disclose to the board and senior management the nonconformance and its impact.

a) 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:

i. Engagement supervision
ii. Audit client feedback/survey.
iii. Engagement completion Review.
iv. Post-engagement review.

i. Engagement Supervision

Standard 12.3 Oversee and Improve Engagement Performance

Requirement

The chief audit executive must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies.

- The chief audit executive or an engagement supervisor must provide internal auditors with guidance throughout the engagement, verify work programs are complete, and confirm engagement workpapers adequately support findings, conclusions, and recommendations.
- To assure quality, the chief audit executive must verify whether engagements are performed in conformance with the Standards and the internal audit function's methodologies.
- To develop competencies, the chief audit executive must provide internal auditors with feedback about their performance and opportunities for improvement.

The extent of supervision required depends on the maturity of the internal audit function, the proficiency and experience of internal auditors, and the complexity of engagements.

The chief audit executive is responsible for supervising engagements, whether the engagement work is performed by the internal audit staff or by other service providers. Supervisory responsibilities may be delegated to appropriate and qualified individuals, but the chief audit executive retains ultimate responsibility.

The chief audit executive must ensure that evidence of supervision is documented and retained, according to the internal audit function's established methodologies.

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 other competencies to perform the engagement.

g. Providing appropriate instructions while planning the engagement and approving the engagement work program.
h. Determining the engagement work papers provide sufficient support for engagement observations, conclusions, and recommendations.
i. Ensuring engagement communications are accurate, objective, clear, concise, constructive, and timely.
j. Ensuring consistent application of Due Professional Care and judgement.
k. Confirming that the necessary consultation with audit client were carried out, recorded and that differences were resolved.
l. 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. The HIA shall determine the extent of supervision required for each engagement based on the nature and complexity of the engagement compared to the proficiency of the Internal Audit team.

Supervision may include setting expectations, encouraging communications among team members throughout the engagement, reviewing and timely signing off on workpapers. 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.
b. 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.
c. 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.

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. On receipt of feedback from the audit client, the lead Internal Auditor shall ensure necessary additional audit steps are undertaken; additional information is acquired; appropriate work papers are maintained; and final audit report is prepared. The lead Internal Auditor shall issue the final report and updated audit file to the HIA for final review and issuance of the final report to the audit client.

Responsibility for first stage working paper review (during field work) and second stage work paper review (before issuance of draft report) will depend on the seniority of the Internal Auditor who performed the detailed audit work.

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. Issues arising from the review, which are not resolved immediately, should be noted on a review sheet by the reviewer. The review should be conducted at a level of responsibility higher than that of the preparer of the working papers.

Review Notes Template has been provided on PSASB website www.psasb.go.ke for guidance.
Supervision provides the HIA or the lead Internal Auditor an opportunity to conduct on the job training to the Internal Audit team. Reviewing of the work papers enables the HIA or the lead Internal Auditor to assess the performance of the Internal Audit team and identify skill gaps. The reviewers should use the review sheets to provide feedback to the Internal Auditors and ensure that lessons learnt are put into consideration in future audits. To be effective, this feedback should be provided as promptly as possible. In addition to reviewing work papers at the end of field work, the HIA should plan a field visit to the Internal Audit team to observe their performance and discuss significant audit observations and challenges that the team may be facing.

Where the IAF cannot establish effective supervision mechanisms due to limited staff resources, the HIA should use checklists or automated tools to provide assurance on internal auditors' compliance with established methodologies and to facilitate consistent performance of internal audit services in conformance with the Standards.

ii. 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.psasb.go.ke for guidance. It contains the minimum content, and the relevant Team Leader can add additional content on which feedback is required if deemed necessary to meet the IAF requirements.

iii. 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 following-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.

The metrics may include adequacy of resource allocation (such as budget-to-actual variance), the timeliness of engagement completion, the achievement of the engagement plan, audit client satisfaction surveys, conformance with selected standards and compliance with laws, regulations and policies.

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

iv. 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.

b) 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. The ongoing monitoring and periodic self-assessments provides an effective structure for continuous assessment of internal audit conformance and improvement opportunities.

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 HIA should consider including internal auditors in the periodic self-assessment process to improve their understanding of the Standards.

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

i. IAF's conformance with Standards
ii. The adequacy of the IAF's methodologies.
iii. How well the IAF supports the achievement of the entity's objectives.
iv. The quality of internal audit services performed and supervision.
v. The degree to which stakeholder expectations are met and performance objectives are achieved.
vi. Extent of compliance with the laws, regulations, guidelines, policies and Internal Audit Charter.

A Self-Assessment shall be undertaken in line with the QAIP Manual and the prescribed templates as issued by PSASB. The following templates have been provided on PSASB website www.psasb.go.ke for guidance.

Template Title
Checklist on periodic self-assessments Template
Audit client satisfaction survey Template
Periodic Internal Audit Staff survey
Periodic External Assurance Providers survey
Engagement Reviewer Checklist

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.

PFMA, 2012 PFMR, 2015 Requirements

Regulation 166(3) (National Government)/ Regulation 159(3) (County Government)

At least once every three years, but not more than five years, IAF shall undergo a professional assessment of its effectiveness undertaken by a professionally recognized body or institution.

Standard 8.4 External Quality Assessment

Requirements

The chief audit executive must develop a plan for an external quality assessment and discuss the plan with the board. The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation. When selecting the independent assessor or assessment team, the chief audit executive must ensure at least one person holds an active Certified Internal Auditor® designation.

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.

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:

i. Experience with and knowledge of the Standards and leading internal audit practices.
ii. Experience as a HIA or comparable senior level of internal audit management.
iii. Experience in the entity's industry or sector.
iv. Previous experience performing external quality assessments.
v. Completion of external quality assessment training recognized by The Institute of Internal Auditors.
vi. 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. If a potential assessor is a former employee of the entity, the length of time the assessor has been independent should not be less than 24 months from time of exit. Potential impairments may include:

i. External audits of financial statements.
ii. Assistance to the IAF.
iii. Personal relationships.
iv. Previous or planned participation in internal quality assessments.
v. Advisory services in governance, risk management, and control processes; financial reporting; or other areas.

Appropriate safeguards shall be established to enhance the independence of the assessor by taking the following into account;

i. Individuals from another department of the entity, shall not be considered independent for the purpose of conducting an external assessment.

ii. 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.
iii. IAFs in separate entities within the same tier of government shall not be considered independent if they report to the same HIA.
iv. 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.

The external quality assessment should include a comprehensive review of the adequacy of the IAF's:

a) Conformance with the Global Internal Audit Standards.
b) Mandate, Internal Audit Charter, Strategy, methodologies, processes, risk assessment, and internal audit plan.
c) Compliance with applicable laws and/or regulations.
d) Performance criteria and measures as well as assessment results.
e) Competencies and due professional care, including the sufficient use of tools and techniques, and focus on continuous development.
f) Qualifications and competencies, including those of the HIA role, as defined by the entity's job description
g) Integration into the entity's processes, including the relationships among those involved in positioning the internal audit function to operate independently.
h) Contribution to the entity's governance, risk management, and control processes.
i) Contribution to the improvement of the entity's operations and ability to attain its objectives.
j) Ability to meet expectations articulated by the governing body, senior management and stakeholders.
k) Optimal staffing of internal audit function.

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:

a) Full Achievement or Conformance: all related requirements were satisfied.
b) General Achievement or Conformance: one or more discrepancies, or gaps, have been noted, but the intent of the standard or principle was met.
c) 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.
d) 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. The opportunities for continuous improvement will subsequently be identified and recommended.

The External Quality Assessment shall take into account the additional provisions of the QAIP Manual and the prescribed templates as issued by PSASB.

a) 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:

i. A comprehensive and fully 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, policies, and guidelines. The HIA shall use the tools and techniques applicable in the external quality assessment.
ii. Validation by a qualified, independent external quality assessor or assessment team. The independent validation should determine that the internal assessment was conducted completely and accurately. The validator should meet the independence and qualification criteria of the independent assessor or assessment team as specified in the Standard.
iii. Benchmarking, leading practices, and interviews with key stakeholders, such as governing bodies, management, external and internal auditors.

b) 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:

i. 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.
ii. 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.
iii. 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 as described in the following diagram:

Figure 8 below provides an overview of peer review process

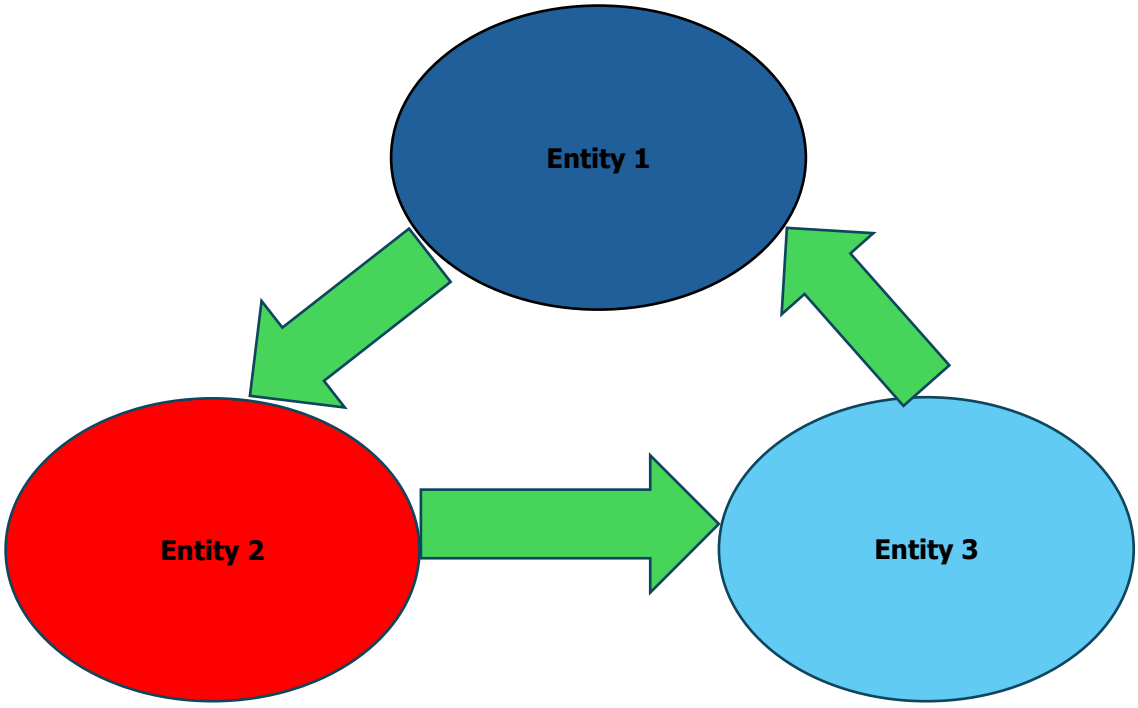


Figure 8: Peer Review Source: IIA Practice Guide on Quality Assurance Improvement Program, 2012

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;

i. Resource limitations: There are higher costs associated with a full external assessment or SAIV as compared to peer review.
ii. HIAs may choose to perform a peer review following the initial establishment of their QAIP to achieve the benefit of building quality into the operations.
iii. When the Internal Audit Function has adequate professional resources to undertake a complete self-assessment using the same tools used for full external assessment.
iv. Peer review may also be used as a precursor to help prepare for SAIV or FEA
v. Where the entities participating in the peer review have undergone a full external assessment.
vi. 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.

PFMA, 2012 PFMR, 2015 Requirements

Regulation 166(3) (National Government)/ Regulation 159(3) (County Government)
Each year the Internal audit unit of a public sector entity shall assess its own effectiveness through an internal performance appraisal and shall carry out annual review of the performance of the internal audit activity commenting on its effectiveness in the annual report to the National Treasury/County Treasury for National and County government entities respectively.

Standard 8.1 Board Interaction

Requirement
The chief audit executive must report to the board and senior management the results from the quality assurance and improvement program.

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:

i. 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)
ii. The IAF's achievement of performance objectives.
iii. Compliance with laws and/or regulations, policies, and guidelines relevant to internal auditing.
iv. 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. The performance objectives should be identified and evaluated across but not limited to the following outcome areas:

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. This measure is not exclusively a reflection of the IAF's performance. While IAFs may track the implementation of recommendations or action plans, management is responsible for completing such actions and ensuring that desired outcomes are achieved
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

Performance Measurement Matrix template has been provided on PSASB website www.psasb.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 getting 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. This is in compliance with the dual nature of reporting of the Head of Internal Audit as prescribed in the Public Finance Management (PFM) Act 2012 and the International Professional Practices Framework (IPPF) 2024. Performance management is established through performance contracting and staff performance appraisal.

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;

a) 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.
b) Constitutional Commissions and Independent Offices -the entity-specific Acts and Regulations, Entity-Specific Performance Management Guidelines, and Human Resource Policy and Procedures Manual.
c) 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.psasb.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.psasb.go.ke for guidance.

APPENDIX

ILLUSTRATIONS

Risk Factor Approach to Risk-Based Planning

Illustration 1: Annual Auditing Plan Factors

Risk/Selection Factor	Weight (%)	Sub-Factors
Risk Assessment	x%	a. Risks that impact on the function b. Risk maturity level c. Fraud or corruption has been reported
Budgetary Allocation	x%	a. Rating based on budgetary allocation
Management Concern	x%	a. Weak performance of the area b. Consistent weak controls c. Opportunities to increase revenue or reduce costs
Significant organizational Changes	x%	a. New regulatory requirements b. High staff turnover c. New policies, procedures or systems d. Change in organizational structure e. New and emerging issues
Prior Audit Results	x%	a. Internal Audit conclusion on governance, risk management and controls b. Other assurance providers (including OAG) audit opinion and areas of concern c. Rating by other assurance providers d. The last time the area was audited e. Percentage implementation of audit recommendations
Total	**100%**	

Illustration 2: Sub-Factors Scoring

Planning Factor	Sub-Factors	Rating	Scores
Risk Assessment	**Risks that impact on the function**	a. **High**: function impacted by strategic risks	x
		b. **Medium**: function only impacted by operational risks that are rated high and medium	y
		c. Low: function impacted by operational risks that are rated low risk	z
	Risk maturity level	a. **High**: No risk management established. Management have not identified risks and risk management strategies	x
		b. **Medium**: Risk management established, and management has not identified all the risks and the risk strategies	y

Planning Factor	Sub-Factors	Rating	Scores
		c. Low: risk management process is effective. Governing body and Accounting Officer are aware of the strategic risks, are providing oversight over their management and receive regular reports	z
	Fraud or corruption has been reported	a. **High**: in the last 12 months	x
		b. **Medium**: in the last 24 months	y
		c. Low: in the last 36 months or not reported at all	z
Budgetary Allocation	**Rating based on budgetary allocation**	a. **High**: i. More than Kes 10m; or ii. More than 10% of total budget	x
		b. **Medium**: i. Between Kes 1m and Kes 10m; or ii. Between 5% to 10% of total budget	y
		c. **Low**: i. Less than Kes 1m; or ii. Less than 5% of total budget	z
Management Concern	**Weak performance of the area**	a. **High**: variance of actual performance has been more than 10% in the last financial year	x
		b. **Medium**: variance of actual performance has been between 5% and 10% in the last financial year	y
		c. Low: variance of actual performance has been less than 5% in the last financial year	z
	Consistent weak controls	a. **High**: controls managing high risk areas have not performed as expected in the last 12 months	x
		b. **Medium**: i. Controls managing medium risk areas have not performed as expected in the last 12 months; or ii. Controls managing high risk areas were reported not to have performed as expected more than 12 months ago but less than last 24 months ago	y
		c. **Low**: i. Controls managing low risk areas have not performed as expected in the last 12 months; or ii. Controls managing medium risk areas were reported not to have performed as expected more than 12 months ago but less than last 24 months ago iii. Controls managing high risk areas were reported not to have performance as expected more than 24 months ago but less than last 36	z

Planning Factor	Sub-Factors	Rating	Scores
		months ago	
	Opportunities to increase revenue or reduce costs	a. **High**: i. Revenue may be increased by more than 5 % of last financial year audited accounts; or ii. Expenditure will reduce by more than 10% of last financial year audited accounts	x
		b. **Medium**: i. Revenue may increase by between 2.5% to 5% of last financial year audited accounts; or ii. Expenditure will reduce by between 5% and 10% of last financial year audited accounts	y
		c. **Low**: i. Revenue may be increased by less than 2.5 % of last financial year audited accounts; or ii. Expenditure will reduce by less than 5% of last financial year audited accounts	z
Significant Operational Changes	**New regulatory requirements**	a. **High**: the new law or regulation has a strategic impact on the entity and impacts on an area	x
		b. **Medium**: the new law or regulation has an operational impact on the entity and impacts on an area	y
		c. Low: the new law or regulation has little or low impact on the entity and impacts on an area	z
	High staff turnover	a. **High**: i. Turnover at the governance level ii. 10% and above turnover of Senior Management	x
		b. **Medium**: i. Less than 10% but more than 5% turnover of Senior Management ii. 10% and above turnover of middle management/supervisors	y
		c. **Low**: i. Less than 5% turnover of Senior Management ii. Less than 10% but more than 5% turnover of middle management iii. 10% and above turnover of employees below middle management	z

Planning Factor	Sub-Factors	Rating	Scores
	New policies, procedures or systems	a. **High**: i. Changes impact one or more directorates or divisions (this is the highest level of operation). ii. Changes impact departments in more than one directorate (this is the middle level of operation).	x
		b. **Medium**: the changes impact one or more departments within a directorate/division	y
		c. Low: the changes impact one or more processes (this is the middle level of operation) within a department	z
	Change in organizational structure	a. **High**: the changes impact on the governance level and Senior Management positions	x
		b. **Medium**: the changes impact on the middle management positions	y
		c. Low: the changes impact on the employees below middle management positions	z
Prior Audit Results	**Internal Audit conclusion on governance, risk management and controls**	a. **High**: rated as weak	x
		b. **Medium**: rate as strong with key areas of improvement	y
		c. Low: rated as strong	z
	OAG audit opinion and areas of concern	a. **High**: adverse and disclaimer opinion and areas that led to the opinion	x
		b. **Medium**: Qualified opinion and areas that led to the opinion	y
		c. Low: unqualified opinion	z
	Rating by other assurance providers	a. **High**: i. Adverse opinion by external assurance providers e.g. Public Procurement Regulatory Authority (PPRA), Ethics and Anti-Corruption Commission (EACC) etc ii. Governance, risk management and controls rated as weak by Internal assurance providers	x
		b. **Medium**: Governance, risk management and controls rated as strong with key areas of improvement by other assurance providers (i.e. that are not IAF or OAG)	y
		c. Low: Governance, risk management and controls rated as strong by other assurance providers (i.e. that are not IAF or OAG)	z

Planning Factor	Sub-Factors	Rating	Scores
	The last time the area was audited	a. **High**: more than 3 years ago	x
		b. **Medium**: more than 2 years ago	y
		c. Low: last financial year	z

Illustration 3: Auditing frequency

Illustration below provides a guide on determining the frequency of auditing an area based on its risk rating and an internal auditors' professional judgment.

Risk rating	Frequency of auditing
High	Every year
Medium	Twice in three years
Low	Once in three years

Illustration 4: Contents of Entrance Meeting Agenda

The agenda of the Audit Entrance Meeting will include;

1. Introduction of audit client's key staff and the Internal Audit team. This shall include clarifying on the purpose of internal audit, roles and responsibilities of the audit client and the Internal Audit team.
2. Engagement objectives and scope.
3. Concerns or management requests.
4. Business conditions and operations of the activity being audited, including recent changes in systems, processes, and staff.
5. Overview of the Internal Audit process including process of communicating and timelines of key milestones e.g.
    i. end of field work,
    ii. exit meeting,
    iii. issue of draft report,
    iv. obtaining management feedback on draft report
    v. issue of final report and
    vi. End of audit survey
    vii. Presentation of audit results to the Audit Committee
6. Key information that will be required.
7. Evaluation criteria
8. Audit approach
    - Methodology
    - Sampling
    - Rating
9. Key client and audit team contacts.
10. Risks and controls in focus.
11. Matters of particular interest or concern to the Internal Auditor.

Illustration 5: Sample Size Criteria

Frequency o control	*No. of transactions/ activities where the control is invoked in a year*	*Low Risk of failure*	*Higher Risk of Failure*
Annual	*1*	*1*	*1*
Quarterly	*2 – 6*	*1+1*	*1+1*
Monthly	*7 – 30*	*2*	*3*
Weekly	*31 – 100*	*5*	*8*
Daily	*101 – 365*	*15*	*25*
Recurring	*More than 365*	*25*	*40*

The auditor shall exercise professional judgement to determine the risk of failure. If the auditor experiences challenges, the HIA should be contacted for guidance. To determine risk of failure (higher or lower), the following factors shall be considered in part or as a whole:

1. *Whether there have been changes in the volume or nature of transactions.*
2. *History of errors/ audit queries or fraud.*
3. *Changes to the control design.*
4. *Effectiveness of directive controls [policy and procedures];*
5. *Competence and turnover of the personnel who perform the control or monitor the control;*
6. *Whether the control relies on the performance of an individual; and*
7. *Complexity of the control [more complex controls may have higher risk of failure].*

The Internal Auditor will consider the following further guidelines when sampling;

i. *Where a control is automated, the audit team will carry out data analytics and sample the exceptional items from the results of analytics to confirm if the gaps identified are true.*
ii. *Where control is Manual, a representative random sample will be taken from the population.*
iii. *Where control is semi-automated, the automated part can be subjected to analytics and sample taken to confirm the gaps. The Manual process will be sampled from the population.*

Illustration 6: Rating of Findings

Rating of the findings is intended to provide the management with an indication of the internal controls of a particular business process that has been audited. It helps to identify findings that should be prioritized over others. An Entity's risk management rating criteria should be used to rate audit findings.

Below is an example of how findings may be rated

Findings may be rated as High, Medium or Low. The rating cell may be coloured using the following colours;

Rating	Colour Code
High	
Medium	
Low	

The following criteria may be used to rate each finding.

a) High Rating ;

One or more of the following conditions exist that require immediate attention of the Senior Management;

- Financial impact of both actual and potential losses is material
- Management's actions, or lack thereof, have resulted in the compromise of a key process or control, which requires immediate significant efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks. Failure by the management to remedy such deficiencies on a timely basis will result in the entity being exposed to immediate risks and/or financial loss.
- One or more of the following conditions is true;
  - ✓ Management failed to identify key risks
  - ✓ Management failed to implement processes and controls to mitigate key risks.
  - ✓ Management's actions, or lack thereof, have resulted in a key initiative to be significantly impacted or delayed and the financial support for such initiative will likely be compromised.
- Management failed to implement effective control environment or provide adequate oversight, resulting in a negative pervasive impact on the entity or potential fraudulent acts by entity's staff.
- Fraud by management or staff, as defined by the Fraud Prevention Policy
- Material impact to the entity's strategic or key initiative.

NB: Corrective actions by senior management must be implemented.

b) Medium Rating ;

One or more of the following conditions exist that require attention by senior management;

- Financial impact of both actual and potential losses is significant.
- Management's actions, or lack thereof, may result in a key process or control to be compromised, which requires considerable efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Management correctly identified key risks and have implemented processes and controls to mitigate such risks. However, one or more of the following is true;
  - ✓ The processes and controls are not appropriate or adequate in design
  - ✓ The processes and controls are not operating effectively on a consistent basis
- Management's actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised.
- Management failed to provide effective control environment or oversight on a consistent basis, resulting in a negative impact on the respective division, or other departments.
- Management failed to comply with laws, policies, regulatory requirements, etc., which may result in penalties.
- Management failed to identify or remedy key control deficiencies that may impact the effectiveness of antifraud programs.
- Significant impact to the entity's strategic or key initiative.

c) Low Rating  ;

- One or more of the following conditions exist that require attention by management.
- Financial impact of both actual and potential losses is insignificant.
- A non-key process or control if compromised may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Processes and controls to mitigate risks are in place; however, opportunities exist to further enhance the effectiveness or efficiency of such processes and controls. Management oversight exists to ensure key processes and controls are operating effectively.
- Minimal risk of non-compliance to laws, policies, regulatory requirements, etc
- Low impact to the entity's strategic or key initiative.
- Low impact to the entity's operations.

Illustration 7: Overall Rating Criteria

#	Audit	Icon	Rating criteria
1.	High Risk/ Not satisfactory		• Core perspective target achieved at below 90% • Average Implementation rating on audit recommendations at below 80% (or last audit) • Key controls tested and have no audit issues – below 80%
2.	Medium risk/ Average/ Needs improvement		• Core perspective target achieved at 91-99% • Average Implementation rating on audit recommendations at below 80-89% (or last audit) • Key controls tested and have no audit issues –80-89%
3.	Low risk/ Satisfactory		• Core perspective target achieved at 100% and above • Average Implementation rating on audit recommendations at below 90% and above (or last audit) • Key controls tested and have no audit issues – 90-100%

The conclusion may add context regarding the impacts of the findings within the activity under review and the organization. For example, some findings may have a significant impact on achieving goals or managing risks at an activity level, but not at an organizational level.

Illustration 8: Contents of a Final Engagement Report

The HIA shall ensure the final engagement report contains:

i. **Cover page**: May include name of the entity, author of the report (i.e. IAF) department/process being reviewed, report date (month and year) and report reference number. The HIA may innovate ways to secure the confidentiality of the report such as including watermarks, headers or footers.

ii. **Report recipients**: This includes users of the report and purpose i.e. act on recommendation or for information. The section includes report distribution restrictions to ensure that the report shall not be used for a purpose(s) not intended for. In the event that report is required by external parties, the HIA shall liase with accounting officer and governing body prior to release thereof, comply with the entity's policies and procedures or legal requirements.

iii. **Table of content**

iv. **Abbreviations**

v. **Executive summary**: summarizes the most significant information in the report. It is organized according to the sequence of the main report. Where necessary, the executive summary may stand on its own (communicate independently of the main report). All the information in the executive summary shall be supported by the main report. Executive summary may contain:

i Introduction of area being reviewed.
ii A statement that the engagement is conducted in conformance with the Global Internal Audit Standards.
iii Engagement objectives and scope
iv Evaluation Criteria
v Positive attributes.

vi Scope limitation if any.
vii Significant findings.
viii Management acceptance of risks beyond tolerance and acceptable level.
ix Overall conclusion.

vi. Detailed Engagement findings

vii. Introduction:

i. Background information of the area being reviewed and type of audit.
ii. Evaluation criteria
iii. Engagement objectives and scope
iv. Methodology. (sampling approach, testing approach and rating criteria)
v. Risk and controls within scope

viii. Engagement results:

ix. Positive attributes: areas where governance, risk management and controls are effective.

x. Areas for improvement: the findings shall be prioritized based on a defined rating criteria. For each finding the following shall be provided:

i. Criteria: what should be.
ii. Condition: what is i.e. actual status.
iii. Root Cause: likely cause of condition.
iv. Potential Risk and Consequence: this should be linked to the risk register.
v. Significance and risk rating.
vi. Recommendation/Management action plan: action that the audit client will undertake to address the cause, condition and shall include timelines, responsibility & resources required.

xi. Engagement Conclusion: overall opinion of the HIA on the effectiveness of governance, risk management or controls of the area being reviewed.

xii. Acknowledgement: appreciate the audit client and officers from other functions that assisted during the engagement.

xiii. Approval: signing of the report by the HIA or designated officer in the IAF.

xiv. Appendix: includes necessary additional information to support audit findings, recommendations and conclusion that would otherwise interrupt the flow of the report if included in the main body.

Illustration 9: Work Paper Review

The illustration below can guide on who can undertake the first and second stage work paper reviews.

Audit Performed By:	First Stage Preview	Second Stage Review
Internal Auditor I or below	Senior Internal Auditor	Deputy Head of Internal Audit
Senior Internal Auditor	Deputy Head of Internal Audit Internal Auditor	Head of Internal Audit

GLOSSARY OF TERMS

IIA Standards – The purpose of the International Standards for the International Professional Practices Framework (IPPF) of Internal Auditing Standards is to:

- Delineate the basic principles that represent the practice of Internal Auditing as it should be;
- Provide a framework for performing and promoting a broad range of value-added Internal Audit activities;
- Establish the basis for the evaluation of Internal Audit performance; and,
- Foster improved organisational processes and operations.

The Standards consist of Attribute Standards, Performance Standards, and Implementation Standards:

Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities

Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated

Implementation Standards describe how the attribute and performance standards can be applied to specific types of audit engagements. Implementation Standards have been established for **Assurance** and **Consulting** activities.

The Standards are part of the International **Professional Practices Framework** of the IIA that includes the Mission of the Internal Audit, Core Principles, Definition of Internal Auditing, the Code of Ethics, the Standards, and recommended guidance (implementation and supplemental guidance).

Activity under review – The subject of an internal audit engagement. Examples include an area, entity, operation, function, process, or system.

Accounting Officer – An officer designated in writing by the Cabinet Secretary to be responsible for the proper management of the finances of the different National Government entities as may be specified in the different designations.

Add Value – Value is provided by improving opportunities to achieve organisational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Adequate Control – Present if Management has planned and organised (designed) in a manner that provides assurance that the organisation's risks have been managed effectively, and that the organisation's goals and objectives will be achieved efficiently and economically.

Advisory services – Services through which internal auditors provide advice to an organization's stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Examples 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. "Advisory services" are also known as

"consulting services."

Analytical Review – The study and investigation of significant ratios, trends, and other statistics to form conclusions about the likelihood of weaknesses and errors in financial and operating systems.

Analytical Procedures – Tests of the reasonableness of account balances and transactions, involving comparisons of recorded amounts with expectations developed by the Auditor, and scrutinising for unusual items. Analytical procedures may be used at all stages of the audit and are required by Generally Accepted Auditing Standards to be used in the mobilisation and completion phases.
Assurance Services – An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organisation. Examples may include financial, performance, compliance, system security, and due diligence engagements.
Attribute Sampling – Selection of items from a population according to attributes of the item other than its financial value.
Audit Comfort – The assurance derived by the Auditor that sufficient appropriate audit evidence has been obtained for each significant business activity and related audit area with financial reporting significance to reduce audit risk to a level that will enable the Auditor to issue his opinion on the financial statements.
Audit Documentation and Guiding Principles – Audit procedures should be documented in sufficient detail to enable a reviewer to understand what work was done (nature, timing, and extent), what evidence was seen (results) and what conclusions were drawn from the evidence obtained. There are four guiding principles: ▪ Maximise the use of the tailored audit programme, which becomes the record of work done; ▪ Write it once (in detail); ▪ Ensure effective use of additional detailed working papers for areas of higher risk and/or matters of significant judgement; and, ▪ Ensure effective application of Generally Accepted Audit Working Practices.
Audit Plan – The overall service plans to meet and preferably exceed client expectations. The Audit Plan should consider items such as developments affecting the client's business, client and stakeholder needs and expectation, risk assessment, potential critical matters, the audit strategy, engagement management, client communication, client reporting, as well as actions for other assurance services beyond the audit. The Audit Plan is communicated to the client. The format of the documentation of the Audit Plan is flexible and can range from a formal document, which can be a multi-disciplinary plan, to a very concise memo or outline containing only the minimum expected written sections on client needs/expectations and related actions.
Audit Program – A document comprising a detailed description of the work to be performed in an audit assurance or consulting engagement. When completed it forms, with supporting documentation where necessary, the record of work done.
Audit Risk –The risk of reaching invalid conclusions and/or providing faulty advice based on the audit work conducted. Audit risk consists of three components: Inherent Risk, Control Risk (Inherent and Control Risk are together referred to as the risk of material misstatement), and Detection risk.

Audit Sampling – Audit sampling is the application of auditing procedures to a representative group of less than 100% of the items within an account balance or class of transactions (or subject of either) for the purpose of evaluating some characteristic of the entire balance or class (or population tested).
Automated Controls – Controls performed by the computer systems or enforced by system security parameters.
Application Control – Manual or automated control activities that typically operate at a detailed business process or transaction level and are designed to ensure the integrity of the accounting records. Application controls, which can be preventive or detective in nature, directly support the information processing objectives of completeness, accuracy validity, and restricted access.
Audit committee-committee of Board charged with recommending to the Board the approval of auditors and financial report
Board-the highest level of governing body charged with responsibility to direct and/oversee the organization activities and hold senior management accountable
Business Objectives – Business can be defined at a very high level (e.g., a company mission statement) or at a lower level in the organisation (e.g., operational objectives that accomplish the strategy set by the high-level objectives) but are best clearly stated and specific. Objectives are used to measure performance, and they are essential to any planning process. For purposes of the audit, understanding the client's business objectives is the necessary first step to identifying risks because risks are defined in relation to specific objectives.
Business Process – Any sequence of transactions that takes place in order to get work done and achieve the business' objectives. These may range, in order of complexity, from a simple procedure, such as paying a bill, to a key element of the business operations, such as a wholesaler's stock management and distribution system, to functional, such as maintaining an organisation's financial records, to cross functional, like application of human resources.
Business Risk – The risk of the organisation failing to meet its objectives. Anything that can prevent the achievements of the organisation's objectives, including strategic, operational, financial, and compliance objectives. Business risks can only be identified and defined in relation to a business objective, which means understanding objectives must be a prerequisite for identifying risks. To derive real value for audit purposes risks should be defined in detail.
Chief audit executive - describes the role of a person in a senior position responsible for effectively managing the Internal Audit activity in accordance with the entities Internal Audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.
COBIT (Control Objectives for Information and Related Technologies) - Framework created by ISACA for information technology (IT) management and IT governance.
Competency – Knowledge, skills, and abilities.
Compliance – Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, and other requirements.

Computer Environment – A specific set of hardware and system software on which the client's business and accounting systems run (e.g., AS/400. UNIX).
Confidence Level – The level of assurance derived from audit testing based on samples rather than evaluation of the whole population.
Conflict of Interest – Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.
Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed with the client, and which are intended to add value and improve an organisation's governance, risk management, and control processes without the Internal Auditor taking management responsibility. Examples include counsel, advice, facilitation, and training.
Control – Any action taken by management, the Governing body, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises, and directs the performance of sufficient actions that provide reasonable assurance that objectives and goals will be achieved.
Control Environment – The attitude and actions of the Governing body and management regarding the significance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: ▪ Integrity and ethical values ▪ Management's philosophy and operating style ▪ Organisational structure ▪ Assignment of authority and responsibility ▪ Human resource policies and practices ▪ Competence of personnel
Control Framework – Internal control should be evaluated against a framework of five interrelated components that should be applied at any level of the organisation (i.e. at the entity, management unit and/or business process level). These components are: Risk assessment; Control environment; Information and communication; Control activities; and Monitoring of controls. The division of internal control into the five components provides a useful framework to consider how different aspects of an entity's internal control may affect the audit. However, the primary consideration is, to evaluate and validate whether material misstatements in classes of transactions, account balances or disclosures and related assertions rather than its classification into any particular component.
Control Processes – The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

Control Risk – The level of business risk not being prevented or detected by the internal control environment as a whole. One of the three components of audit risk, control risk is the risk that a material misstatement that could occur in an account or cycle will not be prevented or detected and corrected on a timely basis by the client's internal controls. This risk is a function of the effectiveness of the design and operation of internal control in achieving the client's objectives relevant to the preparation of the client's financial statements. Control risk is considered through the application of the audit comfort cycle, particularly at "taking stock" meetings when relevant parties consider how much comfort has been obtained.
Corporate Governance - structure and system of rules, practices and processes by which an organisation is directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organisations.
Criteria – In an engagement, specifications of the desired state of the activity under review (also called "evaluation criteria").
Detection Risk – Detection risk is the risk that the auditor will not detect a material misstatement that exists in an account balance or class of transaction. This risk is a function of the effectiveness of the auditing procedures and their application by the auditor. Detection risk is considered when determining the nature and extent of audit work.
Development and Implementation controls – Procedures or mechanisms in place to ensure that systems are developed, configured, and implemented to meet financial, operational, and compliance business objectives.
Direct Substantive Testing – Evaluation of an organisation's internal control environment purely through the detailed testing of individual transactions, assets, and liabilities (e.g., used when the internal control environment is too weak to justify tests of controls, or evidence of the existence and operation of controls is not available).
Engagement – A specific Internal Audit assignment, task, or review activity, such as an Internal Audit, Control Self-Assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.
Engagement conclusion – Internal auditors' professional judgment about engagement findings when viewed collectively. The engagement conclusion should indicate satisfactory or unsatisfactory performance.
Engagement Objectives – Broad statements developed by Internal Audit that define intended engagement accomplishments.
Engagement planning – Process during which internal auditors gather information, assess and prioritize risks relevant to the activity under review, establish engagement objectives and scope, identify evaluation criteria, and create a work program for an engagement.
Engagement results – The findings and conclusion of an engagement. Engagement results may also include recommendations and/or agreed upon action plans.
Engagement – An internal auditor responsible for supervising an internal audit engagement, which may include training and assisting internal auditors as well as reviewing and approving the engagement work program, workpapers, final communication, and performance. The chief audit executive may be the engagement supervisor or may delegate such responsibilities.

Engagement Work Program – A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.
Finding – In an engagement, the determination that a gap exists between the evaluation criteria and the condition of the activity under review. Other terms, such as "observations," may be used.
Fraud – Illegal acts characterised by deceit, concealment, or violation of trust. Fraud comprises both the use of deception to obtain an unjust or illegal financial advantage, and intentional misrepresentations affecting the financial statements by one or more individuals among management, employees, and third parties. Fraud can be broken down into two main categories: Fraudulent financial reporting, and Misappropriation of assets.
Fraud Risk –The risk of material misstatement of the financial statements due to fraud.
General computer controls – Controls used to manage the IT activities and computer environment, covering the following areas: Maintenance of existing systems, Development and implementation of new systems, information security, and computer operations.
Governance – The combination of processes and structures implemented by the Governing body in order to inform, direct, manage, and monitor the activities of the organisation toward achievement of its objectives.
Governance Arrangements – The means by which an organisation is directed and controlled.
Governing body Highest-level body charged with governance, such as: • A board of directors. • An audit committee. • A board of governors or trustees. • A group of elected officials or political appointees. • Another body that has authority over the relevant governance functions. In an organization that has more than one governing body, "board" refers to the body/bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities. If none of the above exist, "board" should be read as referring to the group or person that acts as the organization's highest-level governing body. Examples include the head of the organization and senior management.
GTAGs (Global Technology Audit Guide) - describes how members of governing bodies, executives, IT professionals, and Internal Auditors address significant IT-related risk and control issues and presents relevant frameworks for assessing IT risk and controls.
Haphazard Selection Method – A common method of selection in non-statistical sampling. This provides a method for selecting a judgmentally representative sample without relying on a truly random process. "Haphazard" does not mean without thought or effort.

Impact – The result or effect of an event. The event may have a positive or negative effect on the entity's strategy or business objectives.
Independence – The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organisational levels.
Information and Communication – Systems that support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.
Information Processing Control – A type of control activity comprising two broad groupings – application and general computer controls.
Information Processing Objectives – Management's goals in relation to controls, which, if effectively met, help support management's implicit financial statement assertions: completeness of records, accuracy of records, validity of records, restricted access to assets and records.
Information Security Controls – Procedures or mechanisms in place to ensure that access (physical or logical) to systems resources and data is authenticated and authorised.
Inherent Risk – The level of business risk associated with the organisation as a whole, or the individual system being examined. Inherent risk is one of the three components of audit risk. The susceptibility of an account balance of cycle to material misstatement, assuming there were no related internal controls. These risks are specific to the client and can relate to macro-economic, industry, or company level conditions, or to characteristics of the client's accounts.
Integrity – Behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the professional courage to act based on relevant facts.
Internal audit charter – A formal document that includes the internal audit function's mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications.
Internal audit function – A professional individual or group responsible for providing an organization with assurance and advisory services.
Interval Sampling – Selection of a sample by extracting every n^{th} item from the population.
ISO 38500 - provides guiding principles for members of governing bodies of organizations on the effective, efficient, and acceptable use of information technology (IT) within their organizations.
ITIL (Information Technology Infrastructure Library) - set of detailed practices for IT activities such as IT service management (ITSM) and IT asset management (ITAM) that focus on aligning IT services with the needs of business
Likelihood – The possibility that a given event will occur.
May – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "may" describes optional practices to implement the Requirements.

Methodologies – Policies, processes, and procedures established by the chief audit executive to guide the internal audit function and enhance its effectiveness.
Must – The Global Internal Audit Standards use the word "must" to specify an unconditional requirement.
Management Information – Any information that management uses to control the business, and on which they make business decisions. This may be the formal output from a business process or any other informal source from which management obtains information.
Management's Risk Assessment Process – The entity's process for identifying and analysing relevant risks to achievement of its objectives, forming a basis for determining how the risk should be managed.
Materiality – The degree of relevance or significance of an absent, inappropriately designed, or ineffective control or management arrangement, in relation to the business risk of the organisation. Materiality is the magnitude of an omission or misstatement of accounting information that may change or influence the judgement of a reasonable person.
Materiality by Nature – The degree of relevance towards business risk of an individual system or set of transactions arising from the characteristics of that system and its sensitivity towards public opinion.
Materiality by Value – The degree of relevance towards business risk of an individual system or set of transactions arising from its monetary value.
Monetary Unit Sampling – The selection of items from a population in such a way that the probability of an item being selected is proportional to its financial value.
Monitoring of Controls - A process that assesses the quality of internal control performance over time. This is accomplished through on-going monitoring activities, separate evaluations, or a combination of the two.
Non-sampling Risk – The risk that the auditor draws an incorrect conclusion from an item or items that (s)he has examined.
Objectivity – An unbiased mental attitude that allows Internal Auditors to perform engagements in such a manner that they have an honest belief in their work product, and that no significant quality compromises are made. Objectivity requires Internal Auditors not to subordinate their judgement on audit matters to others.
Periodically – At regularly occurring intervals, depending on the needs of the organization, including the internal audit function.
Population - The source of items to be selected by audit sampling. Can be an entire account balance or class of transactions. However, the population should be restricted to the group of transactions, for the time period and under the same system of controls that are relevant to the objectives of the test to be performed.

Precision - A term used in connection with the assurance, which substantive procedures provide. In relation to analytical procedures, the degree of precision refers to the closeness of the expectation to the "correct" amount. In relation to audit sampling, it represents the excess of tolerable misstatement over estimated misstatement and is a measure of how precise the conclusions from sampling applications need to be.
Professional Scepticism - An attitude, which means that the auditor should not accept explanations at face value but should validate or corroborate explanations with additional evidence.
Preliminary Systems Evaluation – An initial evaluation of an audited body's control environment conducted to establish whether proper accounting records are maintained to provide sufficient, relevant, and reliable audit evidence to support a systems-based audit approach.
Process – A procedure designed to pass transactions or other information through a system.
Public sector – Governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver programs, goods, or services to the public.
Quality Assurance and Improvement Program – A program established by the chief audit executive to evaluate and ensure the internal audit function conforms with the Global Internal Audit Standards, achieves performance objectives, and pursues continuous improvement. The program includes internal and external assessment.
Random Sampling – A common method of selection in non-statistical sampling involving the selection of items from a sample such that all items have an equal chance of being selected, with all bias removed.
Ratio Analysis – This is the comparison, across time or to a benchmark, of relationships between financial statement accounts (e.g., return on equity), and between an account and non-financial data (e.g., cost per order or sales per square foot). Ratio analysis allows one to understand how the entity stands in relation to its industry competitors and also in relation to itself between periods.
Reasonable Assurance - is a high level of assurance regarding material misstatements, but not an absolute one. Reasonable assurance includes the understanding that there is a remote likelihood that material misstatements will not be prevented or detected on a timely basis.
Reasonableness Test – This is the analysis of account balances, or changes in account balances, between accounting periods, that involves the development of a model to form an expectation based on financial data, non-financial data, or both. In many instances, an auditor uses very simple computations. For example, an expectation for hotel revenue may be developed using a model that includes the average occupancy rate and the average room rate by category or class of room. Similarly, to develop an expectation expense, one may use a model including number of employees, pay rates, hire and termination dates, and overtime.
Reportable Condition – Matters that should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to record, process, summarise, and report financial data consistent with management's assertions in the financial statement. Such deficiencies may involve aspects of the internal control components of:

▪ The control environment; ▪ Entity's risk assessment process; ▪ Control activities; ▪ Information system, including the related business processes, relevant to financial reporting and communication; or, ▪ Monitoring controls.
Residual risk – The portion of inherent risk that remains after management actions are implemented.
Risk – The positive or negative effect of uncertainty on objectives.
Risk appetite – The types and amount of risk that an organization is willing to accept in the pursuit of its strategies and objectives.
Risk assessment – The identification and analysis of risks relevant to the achievement of an organization's objectives. The significance of risks is typically assessed in terms of impact and likelihood.
Risk management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.
Root cause – Core issue or underlying reason for the difference between the criteria and the condition of an activity under review.
Sample Selection Method - To obtain a representative sample so that sample results can be projected to the population or stratum. Random, haphazard, or systematic methods may be applied, according to the circumstances.
Sampling Risk – The risk that sampling techniques will lead the auditor to an incorrect conclusion, compared to the conclusion reached if the whole population were tested. The risk that the conclusions drawn from an audit sample testing might be different from those that would have been reached if the auditing procedures were applied to all the items in the account or population.
Sampling Unit – The specific population characteristic that defines the items to be sampled. For example, in testing accounts receivable, the sampling unit might be the customer balance, invoice number, or individual sales transaction.
Senior management – The highest level of executive management of an organization that is ultimately accountable to the board for executing the organization's strategic decisions, typically a group of persons that includes the chief executive officer or head of the organization.
Should – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "should" describe practices that are preferred but not required.
Significance – The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Stakeholder – A party with a direct or indirect interest in an organization's activities and outcomes. Stakeholders may include the board, management, employees, customers, vendors, shareholders, regulatory agencies, financial institutions, external auditors, the public, and others.
Substantive Audit Evidence -The evidence obtained from performing substantive tests, which could be either substantive analytical procedures, tests of detail, or a combination of both.
Substantive Tests – An evaluation of an individual transaction, asset, or liability in comparison to its recorded or expected value or state. Substantive tests include substantive analytical procedures and tests of details of transactions and account balances. Their purpose is to provide evidence supporting management's implicit financial statement assertions or, conversely to discover misstatements in the financial statements directed to management information capable of being related to financial statement assertions.
Substantive Error – A physical difference between the transaction or property being examined, and what the auditor expects to find.
Systems – The procedures and operations by means of which an organisation's transactions and events are affected and recorded.
Systems Based Auditing – Evaluation of the design and operation of an organisation's systems of internal control.
Systematic Selection Method – A common method of selection in non-statistical sampling. This method of selecting a sample selects every nth item. A sampling interval is established based on the number of items, without reference to size or monetary value of the item.
Targeted Testing - The preferred method of selecting items to be tested based on some characteristic, rather than selecting them "randomly" using audit sampling.
Test of Controls – The evaluation of the design and operation of an identified internal control.
Tests of Control Error – A failure to operate a control in the manner intended by management, record evidence of the operation of that control, or failure to comply with rules and policies which exercise control.
Value for Money – The economy, efficiency, and effectiveness of an organisation's operations.
Walk Through Test – The process of confirming an Auditor's understanding of a system and its related controls by following one transaction through the entire system, from start to finish.
Walk Through Error – The failure of a document or process to follow the system described to the auditor.

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