

Template 1: The Internal Audit Charter

COUNTY GOVERNMENT OF XXXX

INTERNAL AUDIT CHARTER

(Month, Year)

Purpose and Mission

PFMR s153 (1) stipulates the mandate of the Internal Audit function in the county government entities is to provide reasonable assurance through the audit committee on the state of the entities' risk management, control and governance.

The purpose of [name of county] Internal Audit [department/activity] is to provide independent, objective assurance and consulting services designed to add value and improve [name of county]'s operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit [department/activity] helps [name of county] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit [department/activity] will govern itself by compliance with the Public Finance Management Act 2012 (PFMA) and the Public Finance Management Regulations 2015 (PFMR) that require Internal Audit adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Head of Internal Audit Unit will report periodically to senior management and the Audit Committee regarding the internal audit [department/activity]'s conformance to the Code of Ethics and the Standards.

Authority and Confidentiality

The Head of Internal Audit will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Accounting Officer (Chief Officer). To establish, maintain, and assure that [name of County]'s internal audit [department/activity] has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the internal audit [department/activity]'s charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit [department/activity]'s budget and resource plan.
- Receive communications from the county head of internal audit on the internal audit [department/activity]'s performance relative to its plan and other matters.
- Make appropriate inquiries of management and the county head of internal audit to determine whether there is inappropriate scope or resource limitations.

- Approve decisions regarding the appointment and removal of the head of internal audit.
- The head of internal audit will have unrestricted access to, and communicate and interact directly with, the Audit committee, including in private meetings without management present.
- The Audit Committee authorizes the internal audit [department/activity] to:
 - Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
 - Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
 - Obtain assistance from the necessary personnel of [name of county], as well as other specialized services from within or outside [name of county], in order to complete the engagement.

In undertaking the administrative role the Accounting Officer shall:

- Establish risk management, control and governance processes that includes fraud prevention mechanisms and they build robust business operations as stipulated by PRMF s 158 and 168(1)(a).
- Ensure the IAU is appropriately structured and free from all conditions that threaten the function to accomplish its responsibilities as stipulated by PFMR s155(2)(a);
- Ensure the IAU has vote and adequate budget allocation to fund the Internal Audit activity;
- Ensure the IAU has sufficient authority to promote its independence, objectivity and authority as stipulated by PFMR s155(2)(b) and (d);
- Ensure appropriate action has been taken on internal audit recommendations as stipulated by and shall submit an action plan on the same to the chairperson of the Audit Committee as stipulated by PFMR s155(2)(c), s165(1) and s168(b);
- Receive reports from the HIAU on factors that may impair in fact or appearance the independence or objectivity of the Internal Audit;
- Ensure the Internal Auditors shall remain free of influence by an element in the entity on matters including audit selection, scope, procedures, frequency, timing or report content; and
- Ensure the HIAU shall have direct and unrestricted access to senior management.

PFMR s155 (3) stipulates the Internal Audit function and Internal Auditors shall have unrestricted, direct and prompt access to all records, officials, personnel, premises, properties and explanations required to perform their roles and responsibilities.

PFMR s162 (4) stipulates the Internal Auditors shall respect the confidence nature of information acquired during their duties and shall use such information with discretion and only in reaching an internal audit opinion. The Internal Auditors shall not disclose information without approval by the Accounting Officer unless there is a legal or professional obligation to do.

Independence and Objectivity

The Head of Internal Audit Unit (HIAU) shall enjoy operational independence by reporting functionally to the Audit Committee and Administratively (day to day activities) to the Accounting Officer as stipulated by PFMR s155 (1).

The Head of internal audit unit will ensure that the internal audit [department/activity] remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the head of internal unit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for [name of organization] or its affiliates.
- Initiating or approving transactions external to the internal audit [activity/department].
- Directing the activities of any [name of County] employee not employed by the internal audit [department/activity], except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the head of the internal audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- The head of internal unit will confirm to the Audit committee at least annually, the organizational independence of the internal audit [department/activity].
- The head of internal audit will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for [name of County]. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of [name of County]'s strategic objectives are appropriately identified and managed.
- The actions of [name of County]'s officers, directors, employees, and contractors are in compliance with [name of County]'s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.

- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact [name of County].
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The head of internal audit will report periodically to senior management and the Audit Committee regarding:

- The internal audit [department/activity]'s purpose, authority, and responsibility.
- The internal audit [department/activity]'s plan and performance relative to its plan.
- The internal audit [department/activity]'s conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to [name of County].

The head of internal audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit [department/activity] may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit [department/activity] does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Roles and Responsibility

PFMA s155 (3) and PFMR s153 (1) stipulate the roles and responsibilities of Internal Audit. The internal audit unit has the responsibility to:

- Undertake internal audits aimed at strengthening internal control mechanisms that could have an impact on achievement of the strategic objectives of the entity;
- Provide assurance that: appropriate institutional policies and procedures and good business practices are established by the entity; and risks relating to the achievement of the entity's strategic objectives are appropriately identified and managed;
- Assess the actions of public officers and key stakeholders are in compliance with the entity's policies, procedures, laws and regulations;
- Review the effectiveness of the financial (including budgetary and financial management) and non-financial performance management systems and entities;
- Review the governance mechanisms of the entity and mechanisms for transparency and accountability with regard to management of public resources;
- Evaluate whether operations or programs are being carried out efficiently (value of output is more than value of input) and effectively (the results of operations or programs are consistent with established goals and objectives).
- Evaluate whether resources and assets are acquired economically, used efficiently, effectively applied against stated objectives and priorities and protected adequately; and
- Evaluate the adequacy and reliability of information available to management for making decisions with regard to the entity and its operations.

The head of internal audit shall:

- Submit to the audit committee by 15th February each financial year, a risk-based internal audit plan for the Audit Committee's review and approval and communicate the same to the senior management.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- Develop, review and adjust the internal audit plan, as necessary, in response to changes in [name of County]'s business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.

- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit [department/activity] collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact [name of County] are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit [department/activity].
- Ensure adherence to [name of County]'s relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Provide secretarial services to the Audit Committee which includes: supporting the Audit Committee Chair in crafting the meeting agendas; ensuring Audit Committee papers and reports are issued to the committee members on time; ensure committee minutes are prepared and issued to the members on a timely basis.
- Coordinate with other assurance providers (both internal and external).
- Ensure conformance of the internal audit [department/activity] with the Standards, with the following qualifications:
 - ✓ If the internal audit [department/activity] is prohibited by law or regulation from conformance with certain parts of the Standards, the head of internal audit will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - ✓ If the Standards are used in conjunction with requirements issued by [other authoritative bodies], the head of internal audit will ensure that the internal audit [department/activity] conforms with the Standards, even if the internal audit [department/activity] also conforms with the more restrictive requirements of [other authoritative bodies].

Code of Ethics and Code of Conduct

The Internal Auditors in the county government entities shall comply with the codes of conduct as stipulated in the Public Officers Ethics Act 2003, Leadership and Integrity Act 2012, Human Resource Policies and Procedures Manual for the Public Service and IIA Code of Ethics.

Quality Assurance and Improvement Program

The internal audit [department/activity] will maintain a quality assurance and improvement program that covers all aspects of the internal audit [department/activity]. The program will include an evaluation of the internal audit [department/activity]'s conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will verify compliance with this Internal Audit Charter, IPPF, Internal Audit Guidelines, PFMA, PFMR and other relevant laws, regulations. The program will also assess the efficiency and effectiveness of the internal audit [department/activity] and identify opportunities for improvement.

The head of internal audit will communicate to senior management and the Audit Committee on the internal audit [department/activity]'s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside [name of County].

Approved Signatures

Head of Internal Audit Unit

Date

Accounting Officer

Date

Audit Committee Chair

Date