**FRAMEWORK FOR COLLABORATION BETWEEN THE OFFICE OF THE AUDITOR GENERAL AND INTERNAL AUDITORS IN THE PUBLIC SECTOR**

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# Introduction

## Establishment of the Office of the Auditor General (OAG)

The Office of the Auditor General (OAG) is an independent Office established under Article 229 of the Constitution of Kenya 2010 and Sec 4 of the Public Audit Act (PAA) 2015.

Further to Article 229 of the Constitution, Sec 7 of the PAA 2015 sets out the following additional functions and responsibilities of the Auditor-General;

1. Give assurance on the effectiveness of internal controls, risk management and overall governance at national and county government.
2. Undertake audit activities in state organs and public entities to confirm whether or not public money has been applied lawfully and in an effective way.
3. Satisfy himself or herself that all public money has been used and applied to the purposes intended and that the expenditure conforms to the authority for such expenditure
4. Confirm that—
   1. All reasonable precautions have been taken to safeguard the collection of revenue and the acquisition, receipt, issuance and proper use of assets and liabilities; and
   2. Collection of revenue and acquisition, receipt, issuance and proper use of assets and liabilities conforms to the authority;
5. Issue an audit report in accordance with Article 229 of the Constitution;
6. Provide any other reports as may be required under Article 254 of the Constitution; and
7. Perform any other function as may be prescribed by any other written legislation.

## Establishment of the Internal Audit functions in the National Government

The Internal Auditor General Department (IAGD) is established under Section 73 of the PFM Act 2012 and Regulation 163 of the PFM Regulations for National Government, 2015.

The functions of the IAG are stipulated in PFM Regulation 164 for the National Government as listed hereunder. The Internal Auditor-General, in leading the internal audit function within the National Treasury, is responsible for policy formulation and strategic direction of internal audit function within the national government entities including—

1. Advising the Cabinet Secretary and the Principal Secretary on emerging issues in internal auditing;
2. Developing and implementing the use of innovative approaches in performing independent assessment of systems, controls and efficiencies guided by professional standards;
3. Supporting the entities efforts to achieve their objectives;
4. Promoting national government-wide risk management and provide the management with consulting services to improve the overall national government operations;
5. Providing capacity building for both levels of governments including developing curriculum, training materials and undertake training for audit committees; and
6. Reporting annually to the National Treasury on the internal audit function performance.

## Establishment of the Internal Audit Function in County Governments

The Internal Audit Function (IAF) is established under Section 155 of the PFM Act 2012 and Regulation 156 of the PFM Regulations for County Government , 2015.

The functions of the IAF are stipulated in PFM Regulation 157 for the County Government as listed hereunder. The Head of Internal Audit function, in leading the internal audit function within the County Treasury, is responsible for operational aspects of internal audit function within the county government entities including :

1. Advising the County Executive Committee Member and the Chief Officer on emerging issues in internal auditing;
2. Developing and implementing the use of innovative approaches in performing independent assessment of systems, controls and efficiencies guided by professional standards;
3. Promoting county government-wide risk management and provide the management with consulting services to improve the overall county government operations;
4. Providing capacity building for county government entities including developing curriculum, training materials and undertake training for audit committees; and
5. Reporting annually to the County Treasury on the internal audit function performance.

## Internal Auditors in National and County Governments

The PFM Regulations 160 & 153 of the National and County Government respectively provides that the Internal auditors shall—

1. Review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in national and county government entities, including Parliament and Judiciary;
2. Have a duty to give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization; and
3. Review the effectiveness of the financial and non-financial performance management systems of the entities.

The PFM Regulations 161 & 154 of the National and County Government respectively provides that Internal Auditors shall comply with the International Professional Practices Framework (IPPF) as issued by the Institute of Internal Auditors (IIA) from time to time and shall conduct audits in accordance with policies and guidelines issued by the Public Sector Accounting Standards Board (PSASB) to ensure uniformity and consistency across National And County Government.

# Legal Framework

This section provides the legal provisions guiding Internal Audit and Office of the Auditor General in the conduct of their work.

## Public Finance Management Act 2012

Section 73 and 155 of the PFM Act 2012 stipulates as follows:

1. Every National or County Government entity shall ensure that it complies with the PFM Act and—
2. Has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board; and
3. Where any regulations are in force under subsection (2), those regulations are complied with.
4. Regulations may prescribe requirements to be complied with in conducting internal audits.
5. The arrangements for conducting internal auditing shall include—
6. Reviewing the governance mechanisms of the entity and mechanisms for transparency and accountability with regard to the finances and assets of the entity;
7. 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;
8. Verifying the existence of assets administered by the entity and ensuring that there are proper safeguards for their protection;
9. Providing assurance that appropriate institutional policies and procedures and good business practices are followed by the entity; and
10. Evaluating the adequacy and reliability of information available to management for making decisions with regard to the entity and its operations.
11. A National or County government entity shall ensure that internal audits in respect of the entity are conducted in accordance with international best practices.
12. Every national or county government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the PFM Regulations.

## Public Audit Act 2015

Sec 33 of the Public Audit Act 2015 stipulates as follows: The final report by an internal auditor which has been deliberated on and adopted by an audit committee of a State Organ or public entity, may be copied to the Auditor-General.

1. The Auditor-General shall have unhindered access to all internal audit reports of a State Organ or any public entity, under subsection (1) above, which is subject to audit by the Auditor-General as provided for under Article 229 (4) of the Constitution.

## Code of Governance for State Corporations (Mwongozo)

Chapter 3 of Code of Governance for State Corporations (Mwongozo) stipulates that, the Board shall:

1. Receive from the internal audit function a written assessment of the effectiveness of the system of internal controls, risk management and governance processes on a quarterly basis.
2. Receive from the OAG an assessment of the effectiveness of the system of internal control after the audit process.
3. Ensure that the internal audit function monitors for rectification, weaknesses noted by the OAG.

It further, requires that a Board Committee responsible for audit should oversee the internal audit function and the external audit.

The Code of Governance for State Corporations (Mwongozo) to applies appropriately to respective organisations.

# Comparison between Internal Auditors and OAG’s role

The roles and objectives of internal and OAGs are different but complementary. There are therefore benefits to be gained from working together. The comparison of the two functions can be summarized as follows;

| **Area** | **Office of the Auditor General (OAG)** | **Internal Audit** |
| --- | --- | --- |
| Objective(s) | Add credibility and reliability to reports from the organization to its shareholders and stakeholders by giving an opinion on them. | Provide the assurance that the Governing Body and Senior Management are fulfilling their duties. Specifically, the objectives of an internal audit function are to;   1. Establish the areas of high risk in the area being audited. 2. Identify the controls in place to address those risks and review their adequacy. 3. Check whether financial regulations are being followed. 4. Carry out detailed testing of the controls being relied on. 5. Make recommendations where weaknesses or inefficiencies are observed. |
| Reporting | The Auditor-General shall have unhindered access to all internal audit reports of a State Organ or any public entity, which is subject to audit by the Auditor-General as provided for under Article 229 (4) of the Constitution. | The final report by an internal auditor which has been deliberated on and adopted by an audit committee of a State Organ or public entity, may be copied to the Auditor-General. |
| Recipient of reports | Parliament, County Assemblies and General Public. | Governing body, the audit committee and senior management. |
| Scope | The scope of OAG’s work covers the audit of financial statements, probity in the use of public money and value for money in the use of resources. | All categories of risks and their management including the flow of information around the organization and governance. |
| Financial reports and related disclosures, financial reporting risks and their management, the OAG has responsibility to consider the risk of material misstatement due to fraud. | Internal audit helps an organization ensure it has the proper controls, governance and risk management processes in place. |
| Timing and Frequency | Project(s) tied into financial reporting cycle, focused on objective of audit opinion, usually annually. | Audit engagements are performed as per the workplan to ensure consistent value addition. |
| Focus | Historic, but ideally future focused. | Historic, but ideally future focused. |
| Responsibility for improvement | Has a duty to report control weaknesses. | Fundamental to the purpose of internal auditing. |
| Status and Authority | Statutory and regulatory framework. | Statutory and regulatory framework. |
| Professional Ethical Standards | International Standards for Supreme Audit Institutions (ISSAI 130) and their respective professional bodies | IPPF and their respective professional bodies |
| Independence | The Auditor-General is not subject to direction or control by any person or authority in carrying out his or her functions under the Constitution or under the Public Audit Act 2015.  The Auditor-General and his or her staff are required to perform their functions impartially, without fear, favour or prejudice and exercise their powers independently subject to the provisions of the Article 249 (2) of the Constitution, the provision of the Public Audit Act 2015 and any other written law. | The Head of Internal Audit Function under a national and county government entity shall enjoy operational independence through the reporting structure by reporting administratively to the Accounting Officer and functionally to the Audit Committee. |

# Objectives of the Framework for Collaboration between OAG and Internal Auditors

The objective of this framework is to provide a context which will optimize the benefits of audit to public sector entities, whilst enabling internal and external audit to deliver their respective responsibilities. It sets out how internal and external audit will work together to achieve this.

The framework aims to:

1. Establish an effective working relationship, within the bounds of the respective roles of internal and OAGs.
2. Establish mechanisms for collaboration in the planning, executing and reporting of the audit work as well as follow-up on implementation of audit recommendations.
3. Identify areas where external audit and internal audit is likely to place reliance on internal audit and external audit work respectively.
4. Establish a platform for information and knowledge sharing to focus resources on areas of risk.
5. Establish a monitoring mechanism on the effective implementation of the Framework for collaboration.

# Guiding Standards

The Office of the Auditor General auditors are required to perform their audit activities in accordance with ISSAI’s International Standards on Auditing (ISA). To enhance collaboration between OAG and Internal Auditors, reference will be made to ISA 315 or ISSAI 1315 and ISA 610 or ISSAI 1610 in this context.

**ISA 315/ISSAI 1315**

**ISA 315/ISSAI 1315: Understanding the entity and its environment and assessing the risks of material misstatement**

The auditor should obtain an understanding of internal control and the control environment relevant to the audit. The auditor should obtain an understanding of the entity's process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof. The auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting.

The standard addresses how the knowledge and experience of the internal audit function can inform the OAG’s understanding of the entity and its environment and identification and assessment of risks of material misstatement. It also explains how effective communication between the internal and OAGs also creates an environment in which the OAG can be informed of significant matters that may affect the OAG’s work.

**ISA 610/ ISSAI 1610**

**ISA 610/ISSAI 1610: Considering the work of Internal Audit**

The OAG should consider the activities of internal audit and their effect, if any, on external audit procedures. The OAG should obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures. The OAG should perform an assessment of the internal audit function when internal auditing is relevant to the OAG's risk assessment. When the OAG intends to use specific work of internal auditing, the OAG should evaluate and perform audit procedures on that work to confirm its adequacy for the OAG's purposes

This International Standard on Auditing (ISA) deals with the OAG’s responsibilities if using the work of internal auditors. This includes using the work of the internal audit function in obtaining audit evidence. The standard requires external audit to first evaluate internal audit’s work to confirm that it is adequate for external audit’s purposes. This is likely to involve external audit re-performing some of internal audit’s work. ISSAI 1610 The Practice Note to ISA 610 provides additional guidance for public sector auditors.

**Global Internal Audit Standards 9.5 - Coordination and Reliance**

Section 194 of the Public Finance Management Act, 2012, mandates Public Sector Accounting Standards Board to prescribe internal audit procedures. The Board prescribed the International Professional Practice Framework (IPPF) for Internal Auditing Standards for use by public sector entities. In this framework reference will be made to standard 9.5.

**Global Internal Audit Standards 9.5 - Coordination and Reliance**

Requirements

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.

In coordinating activities, the head of internal audit may rely on the work of other assurance and

consulting service providers. A consistent process for the basis of reliance should be established, and the head of internal audit should consider the competency, objectivity, and due professional care of the assurance and consulting service providers.

The Head of Internal Audit should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the head of internal audit is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

# Combined Assurance

Combined assurance is a means of providing assurance in an effective and efficient way that overcomes the difficulties of having different rating systems and reporting formats provided by different functions or departments. Effective coordination and alignment of a range of assurance providers is essential for the Governing body or audit committee to have adequate oversight of the organization’s governance.

**Benefits and Risks**

Benefits of combined assurance include;

1. More precise assurance by involving greater subject matter expertise in audit activities.
2. Reduced redundancy of effort (audit once, audit well) and ‘audit fatigue’ for the organization.
3. Expanded coverage of the enterprise without increasing direct audit hours. (Reliance on others may allow internal audit to reduce the hours spent in that area and allocate them to other risk areas.)
4. Shortened time to management action. For example, the other assurance provider may have continuous monitoring methods in place, or management may have integrated responses to issues detected by other assurance groups into routine business processes.
5. Strategic collaboration, transparency, and better governance for meeting organizational objectives resulting in predictable compliance. When all the groups involved in assurance cooperate and share information, insights, and best practices, the quality of the whole effort is likely to rise.

Risks of combined assurance include:

1. Over reliance on the other party’s work
2. Difficulty in management buy-in
3. Instances of collusion between the Internal Auditor and OAG

The achievement of effective Collaboration can be achieved in two main ways;

## Structural

1. Senior management actively encourage and support collaboration of internal and external audit.
2. There is an appropriately constituted audit committee taking active interest in internal and external audit issues and encouraging Collaboration.
3. Opportunities for Collaboration are identified from respective audit plans and documented along with the agreed procedures for Collaboration.

## Behavioural

1. There is regular and structured dialogue between interested parties, particularly internal and external audit teams.
2. Both sets of auditors adopt an active role in seeking opportunities for collaboration.

# Developing an Assurance Map

Implementation Guidance Standard 2050 on Coordination and Reliance, as part of The IIA’s International Professional Practices Framework® (IPPF®), provides recommended (non-mandatory) guidance for the internal audit profession. An assurance map is a matrix comprising a visual representation of the organization’s risks and all the internal and external providers of assurance services that cover those risks. This visual depiction exposes coverage gaps and duplications. Assurance providers may use the map to coordinate the timing and scope of their services, preventing audit fatigue within areas and processes under review, except in cases where senior management or the Governing body may need a second opinion or a double check from another assurance provider on a high-risk area.

The development of an assurance map should be a collaborative effort, involving each assurance service provider. Internal audit may have the best perspective to initiate the creation of a holistic, organization wide assurance map. Once the map is created, it may reside in whatever assurance function is most appropriate for the organization. Any of the risk management functions — risk management, compliance, legal, finance, or internal audit — would be suited to maintain the assurance map.

Since internal audit is the most likely function to utilize the assurance map in its audit planning, it would follow that they are the most logical entity to task with the responsibility of creating and maintaining the assurance map. Other assurance providers are not as likely to utilize the map in their planning activities, as their activities are largely mandatory assessments required by regulation or some other external entity. If the organization has an Enterprise Risk Management function or an active Strategic Planning function involved in annual risk assessment activities, these functions may be additional custodians for the assurance map.

In its simplest form, an assurance map may be formatted as a matrix that lists the organization’s risk categories in the first column, with additional column headings for each assurance provider, enabling assurance coverage for each risk category to be identified throughout the organization. The assurance map may be as simple or as complicated as suits the organization; however, the key steps to constructing an assurance map remain consistent irrespective of the design.

Assurance mapping steps include:

1. Identifying sources of risk information.
2. Organizing risks into risk categories for consolidated viewing.
3. Identifying assurance providers.
4. Gathering information and documenting assurance activities by risk category.
5. Periodically reviewing, monitoring, and updating the assurance map.

Assurance maps are useful tools for many areas of an organization, including internal audit. A complete and updated assurance map supports:

1. A shared understanding of the risks faced by an organization aligned by risk categories.
2. Identification of the organization’s risk management and assurance roles/functions.
3. Development of a holistic, comprehensive assurance framework, which can be useful during times of transition, such as mergers and acquisitions, restructuring, or assessing and changing business strategies.
4. Collaboration among assurance providers to facilitate the efficient and effective use of resources.

# Building Effective Collaboration

Best practice collaboration is built on the following key elements ***Commitment, Consultation, Communication and Confidence***. The application of these concepts is fundamental to building effective Collaboration and underpins all aspects of internal and OAG relations to ensure proper coverage and minimize duplication of efforts.

## Commitment

Effective Collaboration between internal and external audit can only be achieved where both parties are committed to developing co-ordinated and effective audit services. Internal and OAGs have their respective roles, responsibilities and accountabilities. However, these roles often overlap, and effective Collaboration demands a willingness from both parties to work flexibly to ensure that work is properly co-ordinated in these areas. Collaboration is likely to be most successful where both parties take an active role in promoting Collaboration and are willing to undertake changes to help bring it about. In short, commitment is an attitude of mind.

## Consultation

Regular consultation between internal auditors and OAG provides the basis for identifying opportunities for beneficial Collaboration and the mechanism for helping to bring it about. Even where internal and OAG are not working together in a particular area there may be circumstances where they wish to consult with each other on particular issues or on specific audit findings. While auditors will consult directly on their work, management also has an important part to play in promoting consultation. Ideally this should be achieved through the Audit Committee. Where its remit extends to the consideration of external audit activity, the Audit Committee can be a useful forum for promoting Collaboration between auditors.

## Communication

Communication is a two-way process. Regular and open communication between internal and OAG is essential to the success of Collaboration. Auditors should establish common understanding on the timing and nature of such communications. Formal communication can include regular meetings, particularly to look at future plans to identify opportunities for Collaboration; to avoid duplication of effort; and to agree methods for the sharing of audit findings and other information. There should also be a willingness to communicate less formally when issues arise which are of a mutual interest. The agreed procedures to facilitate effective Collaboration should ideally be agreed by both parties, documented, and approved by the Audit Committee.

## Confidence

There needs to be mutual confidence between both groups of auditors. This is based, most importantly, on recognition that internal and external audits are conducted within relevant professional standards. Where internal audit work offers the possibility of direct use by external audit, the OAG may need to seek specific assurance about the standard of that particular work in order to comply with their professional standards. There also needs to be confidence that any information exchanged is treated professionally and with integrity.

# Collaboration and Co-ordination

Effective Collaboration between external and internal auditors means more than avoiding duplication. An effective framework of Collaboration and co-ordination ensures liaison, Collaboration on work programmes and the sharing of information. This framework covers;

1. Liaison meetings;
2. External audit reliance on internal audit work and vice versa;
3. Arrangements for sharing documents and information;
4. Arrangements for pre-Audit Committee liaison; and
5. External audit’s approach to its review of internal audit

The principles of Collaboration and co-ordination and agreed actions have been tabulated below;

|  |
| --- |
| **1. Liaison meetings** |
| Regular meetings will be arranged between the Head of Internal Auditor and the External Audit Manager to discuss audit planning (in particular, to avoid unnecessary duplication of planned audit work), audit progress and any other issues of mutual interest.  There needs to be clear agreement on, and mutual understanding of, the procedures for promoting Collaboration which are agreed between internal and external audit. Such procedures should be documented to avoid misunderstanding.  **Agreed action**   * A program of regular meetings * Liaise prior to Audit Committee meetings. * Meet annually in respect of audit planning. * Consultation on risk assessment procedures and considerations * Synchronizing the nature, extent, and timing of planned work. * Ensuring a common understanding of assurance techniques, methodology, and terminology. * Informal discussions throughout the year as needed. * Consultation to help identify opportunities for joint working. |
| **2. External audit reliance on internal audit work and vice versa** |
| Internal Audit prepares its strategic and annual plans independently, based on its assessment of the risks existing at the entity. It is likely that some of this work will be in areas in which external audit will wish to obtain assurance to meet their responsibilities.  It is appropriate for external audit to seek to place reliance on internal audit’s work, subject to internal audit having complied with International Standards for the Professional Practice of Internal Auditing (*Standards*) when undertaking their work.  External audit will aim to identify what work it will be seeking to place reliance upon during planning. This ensures that the proposed work meets the timetable and requirements to enable external audit to place reliance upon it, for example, that appropriate sampling is used.  The wide scope of internal audit work is likely to inform external audit to place reliance on internal audit work. The OAG may rely on the work of internal audit but cannot hand over their own responsibilities.  The OAG shall review and assess the effectiveness of the work of internal audit for two main purposes:   * To establish if Internal Audit is undertaking its role effectively in accordance with International Standards for the Professional Practice of Internal Auditing; and * To determine what reliance can be drawn from internal audit work in relation to the OAG’s responsibilities.   If following review external audit is unable to rely on internal audit’s work because it does not meet the required standard or because it is late, this will result in additional audit work being undertaken by external audit.  PFM Regulations Section 166 (3) and 159 (3) for National and County Governments requires internal audit functions to make provision for an external assessment review every three years to five years. External audit may use the results of these reviews to inform their own assessment of the internal audit function.  **Agreed action**   * Internal auditors will ensure conformance with International Standards for the Professional Standards of Internal Auditing (*Standards*) while undertaking their work. * The OAG will ensure conformance to the International Standards for the Supreme Audit Institutions (ISSAIs). * Internal auditors will inform OAG of any changes to or delays to audit work included in the agreed areas of reliance. * The OAG will undertake a review of the internal audit work that it intends to place reliance upon and vice versa. * External audit will discuss promptly with internal audit any issues arising that would prevent it from placing reliance on internal audit's work and weaknesses in internal controls |
| **3. Arrangements for sharing documents and information** |
| This will involve providing access to one another’s work programs, working papers, reports and tools and relying on one another’s work to minimize duplication of effort.  These will enhance understanding and effectiveness if audit reports, and other audit information are shared promptly.  **Agreed action**  • Internal audit will provide OAG with:   * the approved annual audit plan; * access to final audit reports and associated working paper files; * details of any significant changes to the audit plan; and * key documents, in particular the terms of reference, audit strategy and audit plan.   • OAG will provide internal audit with copies of:   * + the approved annual Strategy;   + final reports;   + access to working papers and other information as considered appropriate;   + details of any significant changes to the audit Strategy; and   + an outline of schedule of work and timetables.   • OAG and internal auditors will communicate promptly of any significant concerns arising that the auditor feels should be dealt with other than through the usual reporting arrangements set out in this framework. |
| **4. Arrangements for pre-Audit Committee liaison** |
| It is important that an Audit Committee meeting focuses on dealing effectively with the issues set out on the agenda.  **Agreed action**  As part of the liaison prior to Audit Committee meetings, consider whether there is a need for auditors to address any issues that may inhibit an effective Audit Committee meeting.  The OAG should meet the Audit Committee at least once per financial year |
| **5. External audit’s approach to its review of internal audit** |
| While undertaking reviews, the OAG shall assess the effectiveness of the work of internal audit for two main purposes:  • To establish if Internal Audit is undertaking its role effectively in accordance with International Standards for the Professional Practice of Internal Auditing; and  • To determine what reliance can be drawn from internal audit work in relation to the OAG’s responsibilities.  **Agreed action**  The OAG will undertake an annual review of the internal audit work that it intends to place reliance upon. |

# Areas for Collaboration

This section identifies areas for collaboration between Internal Auditors and the OAG. The areas for collaboration are as indicated in the Table:

|  |  |  |
| --- | --- | --- |
| **Area of Collaboration** | **Internal Audit (IA)** | **Auditor General (OAG)** |
| Internal control | The prime purpose of IA is the evaluation of the system of internal control. This is done by a program of systems audits identified from a risk assessment process. EA assessment of the risk of financial systems in relation to risk to financial statements may be taken into account in preparing IA risk models. IA issue assignment reports and provide an annual opinion on the overall system of control to those charged with governance, senior management and other relevant stakeholders.  When control is weak, IA make recommendations for improvement and follow up the implementation of recommendations. IA may test controls, either substantively or for compliance depending on their opinion of the internal control system. | The Office of the Auditor General is required to obtain an understanding of the control environment and assess whether the environment is conducive to reliable accounting systems and effective internal control. The opinion of IA on the control environment can be used by external audit to inform its assessment of accounting and internal control. Where the Office of the Auditor General opts to rely on the entity’s controls, it may use the results of IA testing of controls to inform the Auditor General’s opinion. |
| Risk Management | IA evaluates the effectiveness of risk management processes. Internal auditors will generally attain an understanding of the entity’s current risk management environment and the corrective actions in place to address prior risks. IA evaluates the adequacy and timeliness of management’s reporting of risk management results. | Certain amounts or disclosures in the entity’s financial statements (such as disclosures about credit risk, liquidity risk, and market risk) may be based on information obtained from the entity’s risk management system. However, the Office of the Auditor General is not required to understand all aspects of the risk management system and uses professional judgment in determining the necessary understanding. |
| Corporate governance | IA is a key player in the provision of assurance to Senior management and those charged with governance. in the preparation of corporate governance statements. IA may also review and report on the corporate governance process. | The Office of the Auditor General is required to review the Accounting Officer’s statement on the system of internal financial control. The role of IA in the preparation of corporate governance statements and the IA opinion of the system of control over corporate governance can provide information which may be used by the OAG in conducting its review. The existence of IA also provides assurance about the corporate governance environment. |
| Reporting and Financial Statements | IA conduct work specifically aimed at assuring the Accounting Officer that the systems contributing to, and for preparing, the financial statements are well controlled. Where there are identified risks of material error or irregularity which may impact on the financial statements, IA may take account of these in its risk assessment. | The OAG is required to express an opinion on the audited entity’s financial statements. In undertaking the work necessary to underpin that opinion, the OAG may seek to rely on the work of IA. If IA has conducted work examining specific risks affecting the financial statements, the results of that work may be relevant to the OAG’s opinion. |
| Compliance with Laws and Regulations | In systems audit IA will normally consider controls in this respect, including legal requirements, specific laws and regulations. Some of this work may also touch on propriety issues. | The OAG gives a separate and explicit opinion on the regularity of transactions and may be able to rely on work carried out by IA in its systems audit activities. |
| Fraud and Corruption | IA may conduct systems audits into the controls to prevent and detect fraud as well as considering fraud risks as a routine risk in audits of financial/operational systems. IA may also be involved in any specific fraud investigations. | The OAG may consider the activity of IA in relation to fraud when assessing the risk of material misstatement in the financial statements. |
| Performance Indicators | IA may consider these as part of other systems audits, as part of corporate governance, or as a system in their own right. IA may also be asked to provide assurance or to otherwise report on the results achieved. | Where the OAG is required to validate performance indicators, consideration of any relevant work by IA may decrease the additional new work which needs to be done and avoid duplication of audit activity. |
| Systems Development | IA will normally be advised of all significant new systems being developed and will sample those to evaluate in order to provide assurance that the new systems have effective controls before they are implemented. | IA activity on providing assurance on development of systems can contribute to the OAG’s assessment of the overall control environment. If the new systems are relevant to the preparation of financial statements, the OAG may also be asked to contribute to the systems development audit, in which case a joint IA/OAG team may be appropriate. |
| Value for Money | IA may consider value for money issues in the conduct of system audits. | When OAG is planning a value for money audit, useful background information and material may be available from IA to minimize the need for background research and to contribute to identification of issues to be examined in more depth. |
| Testing Programs | Testing of systems before deployment can be expensive both in the preparation of the techniques and in the running of the testing programmes on systems. Where there is an overlap in testing plans, Collaboration can allow more economic approaches to meet the needs of both parties. Collaboration over the design of embedded audit procedures in new systems is also beneficial.  When either IA or OAG are planning significant testing programmes, the test programmes can be designed to cover the needs of both parties in one program avoiding duplication of effort. In such circumstances joint working teams may be appropriate. | |
| Audit of Dispersed Organizations | Many organizations are geographically dispersed with a number of local or regional offices. Work on any particular system or for any particular purpose may entail visits to a number of offices. If either IA or OAG is planning a visit to an office for any purpose, it is necessary to consult with the other party to determine whether they have any audit work to be carried out in that location, and for the visiting team to incorporate that work into their program, or for a joint visit to be planned. This leads to more economical use of audit resources and minimizes disruption to the auditees. | |
| Implementation of Recommendations | The OAG will review the implementation of internal audit recommendations and vice versa to ensure prompt action. The results of assurance activities are reported to an appropriate level of management and issues are tracked until they are mitigated. | |

# Assessment of Cooperation

There is need to assess Collaboration between Internal auditors and the OAG. This can be used to identify both the areas where satisfactory Collaboration has been achieved and those where greater benefits from Collaboration could still be gained. The assessment should be done every two years by PSASB.

To help with the assessment of Collaboration, **Annex A** provides a checklist

# Effective Date and Review

The Collaboration Framework shall come into effect upon signing by the Auditor General, PS National Treasury and Council of Governors. The Framework shall be reviewed every three years or when circumstances dictate.

# Conclusion

Effective Collaboration between internal and external audit leads to a range of benefits for both parties, and their clients. Whilst their respective roles are different yet complimentary, Collaboration helps both parties to achieve their objectives, provide better service to the bodies they work with and ultimately to Parliament, County Assembly and the Public.

# Monitoring & Evaluation

Monitoring of this framework will be done on periodic basis to track progress and evaluate the effectiveness of its activities and programmes. Outputs and outcomes will be measured using qualitative and quantitative data obtained from primary and secondary sources and reported in Periodic Review Reports; Survey Reports; Reports of various thematic studies; and Programme Evaluation and Assessment Reports.

# ANNEXES

**ANNEX A: CHECKLIST FOR ASSESSING COLLABORATION**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Yes** | **No** | **Remarks** |
| **Collaboration promoted through management and the audit committee** | | | |
| Does the management and the audit committee actively promote effective Collaboration between the internal and external audit? |  |  |  |
| Does the HIA attend audit committee meetings? |  |  |  |
| Does the OAG attend audit committee meetings? |  |  |  |
| Does the audit committee consider and advise on areas for Collaboration? |  |  |  |
| **Professional Confidence** |  |  |  |
| Has an External Assessment (EA) review of internal audit been carried out by an independent third party? |  |  |  |
| Has OAG given relevant feedback on the results of the review and how it affects areas for Collaboration? |  |  |  |
| If the assessment concludes that reliance on internal audit is not possible, has the OAG made recommendations for improvement and has an action plan been developed? |  |  |  |
| Has Senior management and Governing body considered any need to review the role of internal audit services in the light of EA? |  |  |  |
| **Reliance on Internal Audit** |  |  |  |
| Is reliance on internal audit work clearly built into the external audit plan? |  |  |  |
| Does the OAG discuss the results of their evaluation of internal audit work on which they intend to place reliance? |  |  |  |
| **Cooperation and Consultation** |  |  |  |
| Do IA and OAG meet on a at least annually to give feedback, discuss progress and address the gaps? |  |  |  |
| Do IA and OAG report to the Audit Committee on the arrangements established for routine liaison, the results of past Collaboration, and their plans for future Collaboration? |  |  |  |
| Is there a written agreement for Collaboration and reliance arrangements between IA and OAG? |  |  |  |
| Have all areas for potential cooperation between IA and OAG been explored? |  |  |  |
| Do IA and OAG co-ordinate the timing of their work effectively in order to maximize Collaboration and reliance? |  |  |  |
| Does the management or the audit committee discuss audit plans with both sets of auditors? |  |  |  |
| Are there any potential challenges acting as a barrier to Collaboration between IA and OAG? |  |  |  |
| Has a joint action plan been drawn up to help address these challenges? |  |  |  |
| Have IA and OAG considered joint training in each other’s methodology? |  |  |  |
| Have IA and OAG considered joint working on specific projects with the objective of ensuring skill’s transfer between the two sets of auditors? |  |  |  |
| Do IA and OAG consult and agree on the timing of work in which they have a mutual interest? |  |  |  |
| Has the OAG discussed and agreed minimum standards of documentation to be adopted? |  |  |  |
| Has the OAG discussed and agreed arrangements for sharing relevant files and working papers? |  |  |  |
| **Communication** |  |  |  |
| Is there two-way communication between IA and OAG on matters of mutual interest? |  |  |  |
| Have procedures been agreed with management and internal audit for providing copies of internal audit reports to the OAG? |  |  |  |
| Does the OAG discuss its plans with management and internal audit? |  |  |  |
| Does the OAG communicate its findings to management and internal audit? |  |  |  |