**Draft County Audit Programs**

1 | P a g e

**GOVERNMENT OF KENYA**

**DRAFT AUDIT PROGRAMS FOR COUNTY GOVERNMENTS**

**April 2024**

Table of Contents

[GUIDELINES TO DEVELOP AUDIT PROGRAMS 0](#_Toc167736334)

[1.0. Background 0](#_Toc167736335)

[2.0. Introduction 0](#_Toc167736336)

[3.0. Global Internal Audit Standards 1](#_Toc167736337)

[4.0. Purpose of Audit Programs 5](#_Toc167736338)

[5.0. Benefits of standardized audit work program 5](#_Toc167736339)

[6.0. Areas to be covered in the audit program 6](#_Toc167736340)

[7.0. Risk Based Methodology in developing audit programs 6](#_Toc167736341)

[A. Financial statement assertions: 8](#_Toc167736342)

[B. Management control assertions: 8](#_Toc167736343)

[C. Information processing assertions: 8](#_Toc167736344)

[8.0. Example of terms used in audit programs 9](#_Toc167736345)

[9.0. Scope and Application of the Audit Programs 10](#_Toc167736346)

#

# **GUIDELINES TO DEVELOP AUDIT PROGRAMS**

# **Background**

The National Treasury with support from the World Bank engaged a consultant to identify the capacity gaps within the internal audit functions in the County Governments and the measures for capacity interventions. The diagnostic review was based on a sample of 27 out of the 47 county governments. The areas of review in the County internal audit functions were: Governance structures; Organization relationships and culture (Positioning pillar); Services and roles of internal auditing; Performance management and accountability (Process pillar); People management and Professional practices (People Pillar).

The development of the County Audit Programs addresses the capacity gaps noted under performance management and accountability. The significant gaps noted at the Counties included 86% of the counties have not adopted risk based internal audit approach; Inadequate documentation of internal audit work; 95% of the counties have not invested in automated tools and there was no evidence of adequate documentation of audit programs.

The Board partnered with Public Finance Management Reforms Secretariat to develop County audit programs with an objective to guide in defining planned audit steps/procedures to facilitate execution of various audits with an ultimate objective to standardize internal audit processes within the Counties and promote effective internal audit functions. Consequently, the audit programs will enable county internal audit functions to comply with International Professional Practices Framework.

# **Introduction**

Internal auditors utilize a systematic methodology for analysing business processes, procedures and activities with the goal of highlighting organizational problems and recommending solutions. Planning is not only an important part of the audit process but is also required by the professional standards. This calls for a guide to develop audit planning documents such as audit programs, matrices, questionnaires and checklists that are useful tools for internal auditors. This guideline provides a methodology or framework for developing audit programs. Additionally model audit programs have been developed to guide internal audit functions in the Counties in undertaking their audit engagements.

# **Global Internal Audit Standards**

Public Sector Accounting Standards Board approved the adoption and application of IPPF by all internal auditors in public sector entities. The **Standard 13.6** guides the development of audit programs with the following requirements;

**Standard 13.6 Work Program**

**Requirements**

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.

# **Purpose of Audit Programs**

An engagement audit program sets forth in detail defined planned audit steps/procedures to be carried out to obtain audit evidence that is sufficient and appropriate to achieve audit objectives and ensure adequate coverage of the audit scope.

The audit program also serves as an outline of the work to be performed by the engagement team members and provides a record of the proper planning and execution of the work that can be reviewed and approved prior to the performance of further work.

The audit program should provide sufficient detail for less experienced staff to perform the steps however it should not be overly detailed whereby it might cause auditors to execute steps routinely and override their judgment.

The audit program may include objectives and assertions for each area, risks if objectives are not achieved, sample control procedures, details of the tests to be performed, who performed it (initials), effectiveness of the controls and working paper reference.

The audit objectives to be incorporated in the audit program may include:

* + 1. Financial reporting objectives that pertain to the preparation of reliable financial reports.
		2. Operations objectives that pertain to the achievement of the basic mission(s) of a department and the effectiveness and efficiency of its operations.
		3. Compliance objectives that pertain to adherence to applicable laws.
		4. Safeguarding of assets.

# **Benefits of standardized audit work program**

Well-designed audit programs enhance audit planning and execution in the following ways;

1. Provide evidence of audit planning and limited evidence of execution of the audit.
2. Outlines the work to be performed enhancing a thorough understanding of the unit audited.
3. Helps auditors perform their work in a methodical and planned manner. Planning for each phase of the work to be communicated to all audit personnel concerned.
4. Provides a means of self-control for the audit staff assigned.
5. Acts as a guide for assigning work and thereby controlling the project from beginning to end.
6. Creates documentation and evidence that the work was completed. A signed off audit program supported by proper documentation in the working papers can be used as evidence that a procedure was performed or conclusion reached.
7. Assists management review to ensure quality. A means by which the audit supervisor/manager can review and compare performance with approved plans.
8. Assures management that all risk areas were adequately addressed.
9. Serves as a training tool for new auditors. Assists in training inexperienced staff members and acquainting them with the scope, objectives, and work steps of an audit.
10. Assists in familiarizing successive audit staff with the nature of work previously carried out.
11. Enhanced level of consistency in the procedures performed.
12. Minimization of potential duplications of effort and unnecessary work papers.

# **Areas to be covered in the audit program**

The areas the audit program should cover include; audit date, audit program title, audit program number, audit objectives, sampling method, sample size, test procedures, working paper reference, time period, reports for sample selections, reports and documents subject for review as well as attributes for testing, preparer name & signature and reviewer name & signature.

The audit program should contain a statement of the audit objectives. These objectives would be achieved through the detailed audit program procedures. Objectives should fit within the overall scope of the audit. Every audit procedure should help answer one of the objectives and every objective should be addressed in the procedures or steps. The tests have to be designed in such a manner that they achieve their objectives. Use of imagination, ingenuity and intelligence is vital in creating audit steps responsive to objectives.

Note: The engagement program should be flexible enough to enable the internal auditors make appropriate adjustments during field work. Deviations from the standard recommended procedures should be documented and approved by audit management.

The Head of internal should therefore ensure the following;

* + 1. Preliminary assessment of governance, risk management and controls undertaken during the engagement planning phase is considered.
		2. The nature, extent and timing of the audit steps are clearly defined. This provides a means: of clearly communicating the necessary instructions to the Internal Audit team; for planning, managing and controlling the engagement; and a basis for reviewing the working papers.
		3. The audit steps are focusing on the key risk management strategies/controls to be evaluated.
		4. Special audit procedures (e.g. computer-assisted audit techniques) are identified and documented.

# **Risk Based Methodology in developing audit programs**

Audit work programs may be developed in various ways depending on the nature of the audit. This guideline focuses on the use of risk based methodology in developing audit programs following the steps below;

* + 1. Learning about the audit area

The first step in planning for an audit is to review past internal and external audit reports, review area related policies and procedures, review pertinent laws and regulations, and review the organizational structure.

* + 1. Discuss the area with the process owner management

This step entails interacting with the process owner management to ascertain; What are the objectives they need to meet? How are they supporting the overall organization's mission? What risks exist to meeting the objectives and mission? This last question deals with the inherent risk

- no controls are inferred, so these are risks that exist with no oversight or approval mechanism. Enquire about what frauds could go undetected without controls.

* + 1. Document business processes using either flowcharts or narratives. A survey may also be conducted.
		2. Determine the scope of the audit

Audit Scope refers to the activities covered by an internal audit engagement. Audit scope includes, where appropriate;

* + - 1. Nature and extent of auditing procedures performed
			2. Time period audited
			3. Related activities not audited in order to delineate the boundaries of the audit

In determining the audit scope, consider:

1. Meetings with management;
2. Consideration of findings from the prior audit;
3. Consideration of findings from regulatory reviews;
4. Identifying changes in the unit’s personnel, processes, responsibilities, products, regulations; and preparing testing procedures including the use of detailed audit work programs, questionnaires, checklists or control matrices.
	* 1. Determine the objectives of the audit

These are broad statements and define intended audit accomplishments. This represents the reasons for conducting the audit. This could be based on the internal control objectives of compliance, safeguarding of assets, reliability of financial reporting, efficiency and effectiveness of operations or value for money or a combination. Different audit assignments (e.g. IT, Compliance, System, Value for money, Financial and financial investigations assignments) may have a combination of objectives.

* + 1. Identify the risk if the objectives are not achieved

Identify the risks or threats to the achievement of audit objectives and assess the severity.

The higher the risk of misstatement, the more reliable and relevant is the audit evidence required.

* + 1. Identify the controls in place to mitigate the risks to an acceptable level.
		2. Develop test of controls for adequate design and operating effectiveness and/or quantify the impact of control weaknesses or gaps.

The following criteria may be used to evaluate the adequacy of specific control designs and operating effectiveness:

1. Whether it responds to a control objective
2. Whether it ensures a favorable or desirable outcome
3. Whether it has been implemented by the Management
4. Follow-up actions taken by an organization
5. Frequency of controls
6. Period covered by the controls
7. Whether it links procedures to the relevant management assertions which include;

# **Financial statement assertions:**

1. Existence or Occurrence addresses whether assets or liabilities exist at a given date and whether recorded transactions have occurred during a given period.
2. Completeness addresses whether all transactions and accounts that should be presented in the financial statements are included.
3. Valuation or Allocation addresses whether asset, liability, equity, revenue, and expense components are included in the financial statements at appropriate amounts.
4. Rights and Obligations relates to whether the rights and liabilities are owned by the entity at a given date.
5. Presentation and Disclosure addresses whether particular components of the financial statements are properly classified, described, and disclosed.

# **Management control assertions:**

1. Authorization – approved party authorised the transaction
2. Validity – the activity or underlying event occurred
3. Accuracy – the terms, amounts etc, were correct
4. Timeliness– information was recorded in the proper period
5. Confidentiality – information was kept private
6. Integrity – information is free from corruption and alteration
7. Availability – information is stored and readily available

# **Information processing assertions:**

1. Completeness
2. Integrity
3. Accuracy
4. Validity
5. Sufficient
6. Reliable
7. Relevant
8. Useful
9. Restricted access
	* 1. Audit programs should be approved by the HIA before commencement of field work and any adjustments thereafter approved promptly.

Note: Further points in developing audit programs

* + - 1. Consider opportunities for employing data analysis techniques
			2. Consider testing IT controls
			3. Focus on those process risks that are high or medium
			4. Avoid overlaps between audit assignments
		1. Conduct substantive tests to gain additional assurance as to any of the following areas:
1. Financial statement, Management control and Information processing assertions
2. The nature and extent of potential fraud
3. The extent of non-compliance with regulations as a result of observed control weakness.

# **Example of terms used in audit programs**

Audit programs should describe the task that the auditor is expected to conduct. These action verbs define the audit activity and should be used with the meaning ascribed.

* + 1. **Analyse** – break into components and determine nature
		2. **Check** – compare or recalculate to establish accuracy or reasonableness
		3. **Confirm** –prove to be true or accurate, usually by written inquiry or inspection
		4. **Evaluate** – reach a conclusion as to worth , effectiveness, or usefulness
		5. **Examine** – look at closely and carefully for the purpose of arriving at accurate, proper and appropriate opinions
		6. **Inspect** – to examine physically
		7. **Investigate** – to examine the facts about suspected or alleged conditions
		8. **Review** – to examine critically
		9. **Scan** – to look rapidly for the purpose of testing general conformity to patterns and not apparent irregularities for further study
		10. **Substantiate** – to prove conclusively
		11. **Test** – to examine representative items or samples for the purpose of arriving at a conclusion regarding the population from which the sample is taken
		12. **Verify** – to establish accuracy

Note: Ensuring is a not an audit test. It is the role of management to ensure internal controls are operating effectively and efficiently.

# **Scope and Application of the Audit Programs**

These audit programs shall apply to all internal audit functions under the County Governments and their entities including Departments and Agencies.