

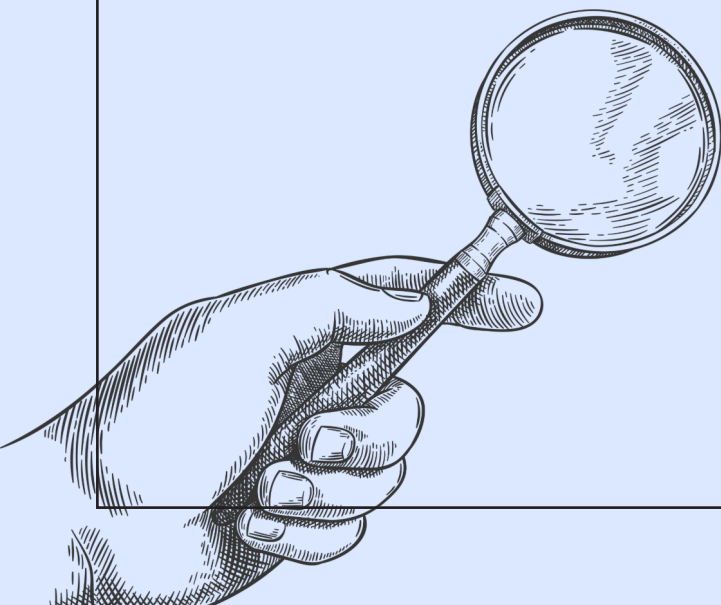


REPUBLIC OF KENYA



Name of Public Sector Entity

**Model Internal Audit
Charter Template**



JANUARY 2025

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ABBREVIATIONS

1. GIAS Global Internal Audit Standards
2. HIA Head of Internal Audit
3. IIA Institute of Internal Auditors
4. IPPF International Professional Practices Framework
5. PFM Act Public Finance Management Act
6. PFMR 2015 Public Finance Management Regulations of 2015
7. PSASB Public Sector Accounting Standards Board
8. AAWP Audit Annual Work Plan

1.0 INTRODUCTION

1.1 Overview of the Entity and Internal Audit Function (IAF)

[Input the background and mandate of your entity]

Internal Auditing is defined as “An independent, objective assurance and advisory service designed to add value and improve an entity’s operations. It helps an entity accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.” (The Institute of Internal Auditors).

The PFM Act, 2012 section 73 (1a) and 155 (1a) stipulates that every national and county government entity shall ensure that it complies with this Act and—(a) has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board; The Internal Audit function seeks to comply to the regulatory framework as set out by [select and input the legislation relevant to your entity]:

- a. Constitution of Kenya, 2010
- b. Public Finance Management Act, 2012
- c. Public Finance Management Regulations, Legal Notice No. 34, 2015.
- d. Public Finance Management Regulations, Legal Notice No. 35, 2015.
- e. Gazette Notice No. 2690 (April 15, 2016) – Audit Committee Guidelines for County Government.
- f. Gazette Notice No. 2691 (April 15, 2016) – Audit Committee Guidelines for National Government.
- g. Other relevant laws, regulations, circulars and guidelines.

1.2 Purpose of the Charter

The primary purpose of this charter is to define and establish the role, scope, authority and responsibility of Internal Audit Function within the entity. The Internal Audit Charter establishes the internal audit activity’s position within the entity; authorizes access to records, personnel, and physical properties relevant to the performance of engagements and defines the scope and limits of internal audit activities.

The Charter, in addition, specifies the following:

- a. Purpose of the Internal Auditing.
- b. Commitment to adhering to the Global Internal Audit Standards.
- c. Mandate, including scope and types of services to be provided, and the governing body’s responsibilities and expectations regarding management’s support of the IAF.
- d. Position and reporting relationship in the entity.
- e. Authority.
- f. Roles and Responsibilities.
- g. Internal audit services.

1.3 Purpose of Internal Auditing

The purpose of the internal audit function is to strengthen [name of entity]’s ability to create, protect, and sustain value by providing the [governing body] and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances [name of entity]'s:

- a. Successful achievement of its objectives.
- b. Governance, risk management, and control processes.
- c. Decision-making and oversight.
- d. Reputation and credibility with its stakeholders.
- e. Ability to serve the public interest (as per relevant entities mandate).
- f. [name of entity]'s internal audit function is effective when:
- g. Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards™, which are set in the public interest.
- h. The internal audit function is independently positioned with direct accountability to the [governing body].
- i. Internal auditors are free from undue influence and committed to making objective assessments.

1.4 Commitment to Adhere to the Global Internal Audit Standards and Relevant Regulatory requirements

The [name of entity]'s internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The HIA will report [periodically] to the [governing body] and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

The internal audit function commits to adhering to legal and regulatory requirements relating to internal auditing.



2.0 INTERNAL AUDIT MANDATE, AUTHORITY AND SCOPE

2.1 Mandate

PFMR 160 (1) and 153 (1), 2015 for National and County Governments stipulates the mandate of the Internal Audit function in the public sector entities. Internal auditors shall:

- a. Review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in national/County government entities, including Parliament and Judiciary.
- b. Have a duty to 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 entities.

[**USER'S NOTE:** In those entities 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.]

2.2 Authority

The HIA has authority to effectively perform duties as provided in section 73 and 155 PFM Act and Part XIII in the PFM Regulation 2015. Audit Committee shall ensure that the IAF has sufficient authority to fulfill its mandate.

The internal audit function's authority is created by its direct reporting relationship to the [governing body]. Such authority allows for unrestricted access to the [governing body]. The [governing body] authorizes the internal audit function to:

- a. Have full and unrestricted, direct and prompt access to all functions, data, records, information, physical property, officials or staff holding any contractual status that is pertinent to carrying out their responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- b. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- c. Obtain assistance from the necessary staff of [name of entity] and other specialized services from within or outside [name of entity] to complete internal audit services.
- d. Take such independent professional advice, as it considers necessary to carry out its duties.
- e. Have unrestricted access to the governing body.

2.3 Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the entity, including all of [name of entity]'s activities, assets, and staff. [**USER'S NOTE:** If the internal audit function has an audit universe, it could be referenced here.] The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the [governing body] and management on the adequacy and effectiveness of governance, risk management, and control processes for [name of entity].

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Advisory Services may include advising on the design and implementation of new policies, processes, systems, pro-

viding training; and facilitating discussions about risks and controls. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

[USER'S NOTE: All entities are expected to list the specific advisory services customized in their environment. The list of the following examples should be customized to the scope of services agreed upon with the entity's governing body and senior management.]

Internal audit engagements may include evaluating whether:

- a. Risks relating to the achievement of [name of entity]'s strategic objectives are appropriately identified and managed.
- b. The actions of [name of entity]'s officers, directors, management, employees, and contractors or other relevant parties comply with [name of entity]'s policies, procedures, and applicable laws, regulations, and governance standards.
- c. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact [name of entity].
- d. The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- e. Resources, assets, programs and operations are acquired economically; utilized efficiently, effectively and sustainably, and protected adequately.



3.0 IAF INDEPENDENCE, POSITIONING AND REPORTING RELATIONSHIPS

3.1 Independence, Objectivity and Positioning

The independence and objectivity of internal audit will be guided as follows:

- a. The HIA will be positioned at a level in the entity that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function.
- b. PFM Regulation 162(1) and 155(1) for National and County governments stipulates that 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 [head of the entity] and functionally to the governing body. This positioning provides the entity's authority and status to bring matters directly to senior management and escalate matters to the [governing body], when necessary, without interference and supports the internal auditors' ability to maintain objectivity.
- c. The HIA will confirm to the [governing body], at least annually, the entity's independence of the internal audit function. If the governance structure does not support entity's independence, the HIA will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The HIA will disclose to the [governing body] any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.
- d. All Internal Audit activities shall remain free of influence in matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of an independence in rendering services.

The Governing Body must protect the independence of the internal audit function by ensuring safeguards to manage the risk of impairment.

3.1.1 Safeguards to Independence

To manage the independence of the Internal Audit function the Governing body and Senior Management shall work with the HIA to:

- a. 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 shall be a significant component of creating a supportive environment which is crucial in ensuring internal audit activities independence.
- b. Where management activities have been assigned to IAF by the Governing body and Accounting Officer, a transition plan to be developed by the Accounting Officer to move these activities out of IAF.
- c. 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.
- d. Obtain external assurance on management activities being undertaken by IAF.
- e. Regularly review the responsibilities assigned to the HIA and the impact they have on independence of IAF.
- f. Regularly review the reporting lines of the HIA and assess if there are any factors that would impair Internal Audit Function independence.
- g. IAF performance management system balances between audit client feedback, results of the audit process and undertaking audit engagements.

3.2 Reporting Relationships

1. [Governing Body] Oversight

[USER'S NOTE: Due to the Global Internal Audit Standards' "essential conditions," the governing body's responsibilities should be included in the internal audit charter. However, if an audit committee charter that outlines its responsibilities is already in place, it is not necessary to repeat the information in this charter].

To establish, maintain, and ensure that [name of entity]'s internal audit function has sufficient authority to fulfill its duties, the [governing body] will:

- a. Discuss with the HIA and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- b. Ensure the HIA has unrestricted access to and communicates and interacts directly with the [governing body], including in private meetings without senior management present. [USER'S NOTE: Public sector internal auditors should ensure any such meetings are held in accordance with laws and/or regulations applicable to public records.]
- c. Discuss with the HIA and senior management other topics that should be included in the internal audit charter.
- d. Participate in discussions with the HIA and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- e. Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- f. Review the internal audit charter [periodically] with the HIA to consider changes affecting the entity, such as the employment of a new HIA or changes in the type, severity, and interdependencies of risks to the entity [periodically (typically annually)].
- g. Approve the internal audit strategic plan, manual, risk-based internal audit plan and budget, and subsequent significant revisions.
- h. Approve the risk-based internal audit plan and budget and subsequent significant revisions to them.
- i. Approve the appointment and removal of the HIA, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- j. Drive the HIA's performance evaluation.
- k. Receive communications from the HIA about the internal audit function including its performance relative to its plan.
- l. Ensure a quality assurance and improvement program has been established, implemented and the results reviewed annually.
- m. Make appropriate inquiries of senior management and the HIA to determine whether scope or resource limitations are inappropriate.

The HIA must provide the governing body with the information needed to conduct its oversight responsibilities. This information may be specifically requested by the governing body or may be, in the judgment of the HIA, valuable for the board to exercise its oversight responsibilities.

2. Role of Senior Management

PFM Regulations 162 (2) and 155 (2) 2015 for National and County Governments requires that an Accounting Officer shall ensure that the entity's structure of the internal audit function 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.

Administrative reporting responsibilities for senior management include but not limited to:

- a. Approving the internal audit function's human resources administration, technological and financial resources.
- b. Approving the internal audit function's expenses.
- c. Participate in the performance evaluation of the HIA.
- d. Facilitate communication and collaborations with other assurance providers.
- e. Provide input in the internal audit annual workplan.
- f. Facilitate effective internal audit process

3. Head of Internal Audit Roles and Responsibilities

[Internal audit functions that have specific roles as per the subtitles below, that are outlined in relevant laws and regulations in their context shall add them here]

I. Ethics and Professionalism

The HIA will ensure that internal auditors:

- a. Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- b. Understand, respect, meet, and contribute to the legitimate and ethical expectations of the entity and be able to recognize conduct that is contrary to those expectations.
- c. Encourage and promote an ethics-based culture in the entity.
- d. Report entity's behavior that is inconsistent with the entity's ethical expectations, as described in applicable policies and procedures.

In the quest for timely provision of quality services, the internal audit function will adhere to the entity's core values while undertaking its work as explained below:

[explain the entity's core values that the internal audit function should adhere to]

II. Objectivity

The HIA will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the HIA determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

The HIA will ensure internal auditors maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

The HIA will ensure internal auditors have no direct operational responsibility or authority over any of the activities they review, within the entity or its affiliates. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that

may impair their judgment, including:

- a. Assessing specific operations for which they had responsibility within the 24 months.
- b. Initiating or approving transactions external to the internal audit function.
- c. Directing the activities of any [name of entity] employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- a. Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the HIA, [governing body], management, or others.
- b. Exhibit professional objectivity in gathering, evaluating, and communicating information.
- c. Make balanced assessments of all available and relevant facts and circumstances.
- d. Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

III. Managing the Internal Audit Function

The HIA has the responsibility to:

- 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. Verifying the existence of assets administered by the entity and ensuring that there are proper safeguards for their protection.
- c. Providing assurance that appropriate institutional policies and procedures and good business practices are followed by the entity; and
- d. Evaluating the adequacy and reliability of information available to management for making decisions with regard to the entity and its operations.
- e. Develop a three-year IAF Strategic plan that is aligned to the entity's Strategic Plan.
- f. Develop and issue the Internal Audit Procedures Manual.
- g. At least annually, develop a risk-based internal audit plan that considers the input of the [governing body] and senior management. Discuss the risk-based internal audit plan and resource requirements with the [governing body] and senior management and submit the plan to the [governing body] for review and approval.
- h. Evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the HIA must develop a strategy to obtain sufficient resources and inform the board and senior management about the impact of insufficient resources and how any resource shortfalls will be addressed.
- i. Review and adjust the internal audit plan, as necessary, in response to changes in [name of entity]'s business, risks, operations, programs, systems, and controls.
- j. Communicate with the [governing body] and senior management if there are significant interim changes to the internal audit plan.
- k. Ensure internal audit engagements are performed, documented, and communicated in accordance with the GIAS, laws and/or regulations.
- l. Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal and external audit services to the [governing body] and senior management [periodically] and for each engagement as appropriate.
- m. Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- n. Identify and consider trends and emerging issues that could impact [name of entity] and communicate to the [governing body] and senior management as appropriate.
- o. Consider emerging trends and successful practices in internal auditing.

- p. Establish and ensure adherence to policies and procedures designed to guide the internal audit function in line with the guidelines issued by PSASB.
- q. Ensure adherence to [name of entity]'s relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the [governing body] and senior management.
- r. Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the [governing body].

IV. Communication with the [Governing Body] and Senior Management

The HIA will report [periodically] to the [governing body] and senior management regarding:

- a. The internal audit function's mandate.
- b. The internal audit plan and performance relative to its plan.
- c. Potential impairments to independence, including relevant disclosures as applicable.
- d. Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- e. Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the [governing body] that could interfere with the achievement of [name of entity]'s strategic objectives.
- f. Results of assurance and advisory services reported on a quarterly and annual basis.
- g. Resource requirements include financial, human resources and technological and any significant revisions to the internal audit plan and resource plan.
- h. Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond [name of entity]'s risk appetite. [USER'S NOTE: this risk acceptance could be a result of funding restrictions impacting management's ability to respond to risks toward strategic objectives.]

V. Quality Assurance and Improvement Program

The HIA will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the HIA will communicate with the [governing body] and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every three to five years by a qualified, independent assessor or assessment team from outside [name of entity]; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential. [USER'S NOTE: Industry and public sector competencies and knowledge as well as knowledge of the Global Internal Audit Standards should be considered when selecting external assessors.]

VI. Other Roles

The HIA will further undertake the following roles

- a. Maintain an effective Internal Audit function
- b. Supporting the function of the senior management in fulfilling their responsibilities for the Internal Audit function.
- c. Ensure that the internal audit function operates within its approved plans, budgets and schedules.



4.0 REVIEW OF THE INTERNAL AUDIT CHARTER

The HIA is responsible for maintenance of this charter to ensure its reviewed annually, it remains current, relevant and in accordance with the IPPF, laws and regulations.

Circumstances may justify a follow-up discussion between the HIA, [governing body/audit committee], and senior management on the internal audit mandate or other aspects of the charter. Such circumstances may include but are not limited to:

- a. A significant change in the Global Internal Audit Standards.
- b. A significant entity within the entity.
- c. Significant changes in the HIA, [governing body/audit committee], and/or senior management.
- d. Significant changes to the entity's strategies, objectives, risk profile, or the environment in which the entity operates.
- e. New laws or regulations that may affect the nature and/or scope of internal audit services.

[USER NOTE: Other contents may be included in the charter as agreed between the HIA and the governing body]

Approved by the [governing body] at its meeting on [date].

Acknowledgments/Signatures

Head of Internal Audit

Date


[Head of the entity/Accounting Officer]

Date


[Governing Body] Chairperson

Date

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