



REPUBLIC OF KENYA

# THE NATIONAL TREASURY

## Internal Audit Customer Handbook



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# Introduction

## Background

Internal Auditing in Government was in operation prior to independence, but was discontinued following the Economic Commission Report of 1962. The system was re-introduced in 1984 when it became apparent that its absence had contributed to laxity in the management of public resources, compliance with the relevant laws, regulations & procedures, and a general lack of effective internal control systems.

In 1995, the Internal Audit Department was re-organised and renamed Audit Inspectorate. Internal auditors were clustered in units from where they conducted audit inspections. In 1997, the department was restructured and decentralised and placed under the ambit of the National Treasury, where it remains to date.

The Internal Auditor General Department (IAGD) of the National Treasury supports Accounting Officers and AIE Holders in the Ministries, Departments, and Agencies in the effective discharge of their responsibilities by evaluating and reporting on the effectiveness of the internal controls systems implemented by Accounting Officers and AIE Holders to ensure:

- (a) The appropriate assessment of risk and adoption of strategies to manage risks to within acceptable levels;
- (b) Compliance with applicable policies, procedures, laws and regulations;
- (c) The reliability of internal and external reporting and accountability processes; and
- (d) Compliance with the relevant codes of conduct and ethical guidelines.

## Purpose and Intended Audience of the Handbook

This handbook is designed for all customers of IAGD within the State Organs and Public Entities (Judiciary, Parliament, Constitutional Commissions and Independent Offices, Ministries, Departments, Counties, Sub-Counties, State Corporations) to help ensure the effective delivery of internal audit services. Key customers are typically:

- Accounting Officers;
- Boards of Directors (including Non-Executive Directors);
- Audit and Risk Assurance Committees (ARACs);
- The National Treasury;
- The members of the Legislature;
- The Kenyan Public; and

- Senior management directly involved in the areas subject to internal audit review, and any recommendations thereon.

The aim of this handbook is to help the customers to better understand and perform a role in recognising and developing internal audit into a high performing service which adds value to their organisations. A strong understanding and management of internal audit can help provide both an effective and efficient service which:

- Meets quality standards and performance targets and seeks continuous improvement in its services;
- Focuses on the areas of greatest importance to the organisation;
- Minimises duplication with other sources of assurance and makes the best use of resources available; and
- Can act as a trusted advisor and helping improve public service delivery.

### **Mandate of Internal Auditor General Department**

IAGD is an independent review function set up within the Civil Service as stipulated in Section 73 of the Public Finance Management Act, 2012. Its key mandate includes:

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

The department is headed by the Internal Auditor General (IAG), who is assisted by a team of Internal Auditors of various ranks, from Internal Auditor grade III to Deputy Internal Auditor General (DIAG). The IAG reports to the Principal Secretary in charge of the National Treasury.

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## Understanding Internal Audit

### What is Internal Auditing?

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes – *The Institute of Internal Auditors Inc., (IIA)*.

Internal auditors deal with issues that are fundamentally important to the survival and prosperity of any organisation. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the organisation's reputation, growth, its impact on the environment and the way it treats its employees.

In sum, Internal Auditors help organisations to succeed. They do this by providing a combination of assurance and consulting services. The assurance part of their work involves informing management about how well the systems and processes designed to keep the organisation on track are working.

### The Role of Internal Audit

Accounting Officers and AIE Holders are responsible for putting in place effective governance, risk management and control systems in the Ministry/Department/Agency they head. The primary role of Internal Auditors is to support Accounting Officers and AIE Holders in discharging these responsibilities, by performing independent and objective appraisals of the effectiveness of these systems. Internal Audit reports functionally to the Audit Committee and administratively to the Accounting Officers.

### Scope of Work of Internal Audit

There are no restrictions placed upon the scope of work of the IAGD. Members of the IAGD engaged in internal audit work are entitled to unlimited access to information, facilities and records, and to receive all explanations they consider necessary to fulfill their responsibilities.

In addition to the routine internal audit reviews, the IAGD may, from time to time, carry out special audits/investigations in various State Organs and Public Entities.

## **Overview of an Internal Audit Engagement**

### **Planning**

Each engagement is specifically planned to ensure that the auditors obtain an adequate understanding of the audit area and can determine an appropriate scope and approach for the engagement. The output of this exercise should be agreed terms of reference including the engagement's objectives, scope, timing and resource allocations, and documented in an Audit Planning Memorandum.

### **Fieldwork**

The audit field work comprises assessment and testing of key controls in place to manage the identified risks (e.g. the risks within programmes to deliver objectives such as new services and facilities and fiscal consolidation), or within core systems. This would typically be undertaken through: discussion with key staff responsible for the relevant processes; review of relevant documentation; physical verifications and independent confirmations; and, testing of controls (which may be on a sample basis) to confirm that they are both designed and operating effectively.

Such controls may be financial, operational or compliance in nature and might range from the segregation of incompatible duties, to the analysis of business cases before strategic plans are implemented, to embedding appropriate cultural attitudes.

### **Reporting**

Each internal audit engagement culminates in a written report on the adequacy and effectiveness of the risk management, governance and control systems. The draft report is discussed with the management of the Ministry/Department/Agency to obtain their concurrence on its factual accuracy and practicality of the recommendations. The final signed report should include the actions agreed with management to address the internal audit findings, and the timeframe within which the recommendations should be implemented.

### **Follow-up of Internal Audit Actions**

Following the identification of actions to improve the Ministry/Department/Agency's framework of governance, risk management and control, internal audit also plays a role in helping ensure such actions are taken. This is achieved through a process to monitor and ensure that management actions have been effectively implemented.

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## **Providing High Quality Service**

Below is a summary of qualities that the department will strive to attain for quality service delivery.

## **Meeting Quality Standards, Performance Targets and Seeking Continuous Improvement**

Internal Auditors will seek to provide effective internal audit services and:

- Conform to the Professional Practices Framework of the Institute of Internal Auditors;
- Meet the function's obligations contained in the Public Finance Management Act, 2012 and Public Finance Management Regulations;
- Have a clear methodology for its work which supports the PFMA/R;
- Collect performance measurement data for use in:
  - improving the function's efficiency;
  - measuring its impact on the organisation; and
  - benchmarking itself against other internal audit services;
- Have a quality assurance and improvement programme in place that covers all aspects of the internal audit activity; and
- Undergo an external quality review of the service at least every five years, the scope of which must be agreed by and results communicated to the Accounting Officer/AIE Holder and the Audit Committee

## **Focus on the Areas of Greatest Importance**

As a high performing internal audit service, internal auditors will:

- Focus their work on where assurance is most needed, but ensuring sufficient assurance to support the governance statement; and
- Apply a risk-based approach to setting their internal audit plan, but also ensure sufficient coverage is provided of core systems and there is flexibility to meet key emerging issues.

## **Minimising Duplication and Making Best Use of Resources**

Internal Auditors will:

- Avoid duplication of effort with other assurance providers; and
- Ensure the best value is received from the resources available.

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## Acting as a Trusted Advisor and Improving Public Service Delivery

As a high performing internal audit service, internal audit will:

- Understand and keep abreast of the increasing complexity of the relevant area of public service delivery;
- Seek to be respected, taken seriously and to have strong relationships with key stakeholders within the Government, built on credibility, strong communication skills and relevant experience;
- Provide advice and recommendations at all stages of the business cycle, driving and influencing decision making, not just providing retrospective assurance;
- Ensure its independence and will have procedures in place to manage any potential conflicts of interest;
- Provide relevant, effective, evidence-based and pragmatic advice and recommendations and robust conclusions, drawing on experience of best practice to help improve public service delivery; and
- Ensure that recommendations, which address their findings, are implemented in line with agreed timescales.



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## Contact Us

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