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FUND BOARD

INTERNAL AUDIT CHARTER

SEPTEMBER 2008

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The Internal Audit Charter

Glossary

- The Board-Constituencies Development Fund Board.
- Audit Committee-Audit and Risk Management Committee.
- Audit Chair-Chairman of the Audit and Risk Management Committee.
- Audit Function- Internal Audit Department
- CDF-Constituencies Development Fund.
- CDFC-Constituencies Development Fund Committee.
- PMC-Project Management Committee.
- Chief Internal Auditor-Head of Internal Audit Department.
- Professional Standards-From the Institute of Internal Auditor's Research Foundation.

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1.0 Introduction

1.1 The Charter defines the Purpose, Authority, general responsibilities and Scope of work of the Internal Audit function consistent with the Internal Auditing standards.

1.2 The charter should be reviewed and approved by the Audit and Risk Management Committee.

1.3 The purpose of Internal Audit Charter is to formalize and inform the Board and the Management of the Audit function which includes the following:

- Vision / Mission of Internal Audit Department.
- Core Values.
- Definition of Internal Auditing.
- Reporting relationship and accountability.
- Audit Professionalism.
- Internal Audit Resources.
- The Audit scope, authority and responsibility.

1.4 The Audit Charter is a blue print used to measure the Audit function performance as agreed with the Audit and Risk Management Committee of the Board.

2.0 Vision Statement

2.1 To be the best Internal Audit function in terms of professionalism, integrity and fairness in the Public Sector.

2.2 Mission Statement

2.2.1 The mission of the Internal Audit Department is to assist the CDF Management and the Board of Directors accomplish their mission by providing assurance and consulting services designed to improve the management operations.

3.0 Definition of Internal Auditing

3.1 Internal Auditing is an independent objective assurance and consulting activity designed to add value and improve the organization's operations. It assists the CDF Board in accomplishing its objectives by bringing systematic, disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

4.0 Reporting relationship and Accountability

4.1 The Chief Internal Auditor will report administratively to the Chief Executive Officer and functionally to the Board through the Chair of the Audit and Risk Management Committee.

5.0 Code of Ethics

5.1 Integrity

5.1.2 The integrity of Internal Auditors establishes trust and thus provides the basis for reliance on their judgment.

5.2 Confidentiality

5.2.1 Internal Auditors should respect the value and ownership of information they receive and not disclose it unless there is a legal professional obligation to do so.

5.3 Competencies

5.3.1 Internal Auditors should have knowledge, skills and experience necessary in the performance of their duties.

6.0 Audit Professionalism

6.1 In the discharge of their duties, Internal Auditors should be guided by professional standards. Auditors should observe Due Professional Care and Ethics as stipulated in the Professional Practices Framework for Internal Auditors as outlined below;

6.2 Independence:

6.2.1 The Internal Audit function should be free from influence in matters of audit selection, scope, procedures, frequency, timing, and report content.

6.2.3 The individual Internal Auditors should have an independent and objective mental attitude while carrying out audit assignments.

6.2.4 Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity that they are required to audit. The Auditors will review these systems/processes and advise management on areas of weakness for improvement.

6.3 Objectivity

6.3.1 The internal Audit function should determine whether the Board's network of risk management, control and governance process, as designed and represented by Management, is adequate and functioning in a manner that ensures:

- 6.3.2 Risks are appropriately identified and managed.
- 6.3.3 Interaction with various governance groups occurs as needed.
- 6.3.4 Significant financial, managerial and operating information is accurate, reliable, and timely.
- 6.3.5 The Board management, and Constituencies Development Funds Committees (CDFCs), Project Management Committees (PMCs) actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- 6.3.6 Board resources are used economically, efficiently, effectively and assets are properly accounted for and adequately protected.
- 6.3.7 Proper objectives are timely achieved.
- 6.3.8 Adequate controls are employed to ensure projects deliver value for money.

- 6.3.9 Legislative and regulatory issues impacting on the Board are observed and implemented appropriately.

6.4 Due professional Care and Proficiency

Internal Auditors should perform their duties with professional care and proficiency of a prudent and a competent officer. The chief Internal Auditor should ensure:-

- 6.4.1 Proper planning for audit assignments.
- 6.4.2 Assignment of audit work to staff with competencies and skills to perform.
- 6.4.3 Supervision of audit staff by a more experienced leader.
- 6.4.4 Reporting on material findings.

6.5 Linkage with other oversight Authorities

The Internal Audit function should consider the work of other oversight authorities in the scope of their work.

6.6 Training.

Internal Auditors should be professionally trained and maintain membership with professional bodies.

The Audit staff should also observe continuous professional education and benchmark with best practices through seminars, conferences, research and workshops.

6.7 Quality Assessment

The Internal Audit Department should periodically undertake internal and external quality assessments to ensure delivery of quality audit services.

7.0 Internal Audit Resources.

7.1 The Internal Audit Department should be adequately staffed with qualified personnel who should collectively possess skills required to deliver on their mandate.

7.2 Provision should be made for the department to co-source or outsource where internal skills are not available for special assignments.

7.3 The Board should provide adequate budget to facilitate the Audit department to perform effectively.

8.0 The Internal Audit Authority, Scope and Work Plan

8.1 Authority

8.1.1 The Internal Audit Department draws its mandate from the Public Financial management Act, 2004.

8.1.2 The Internal Auditors should be granted full, free, and unrestricted access to all of CDF Board records, physical properties, and personnel relevant to areas under review.

8.1.3 All employees are requested to cooperate with the Internal Auditors in discharging their duties.

8.1.4 The Chief Internal Auditor should have free and unrestricted access to the Chairs of the Board and Audit and Risk Management Committee.

8.1.5 Documents and information given to Internal Auditors during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

8.2 Scope

The scope of Internal Audit encompasses the following:-

8.2.1 The CDF Board

8.2.2 The District Projects Committee

8.2.3 Constituencies Development Fund Board Secretariat.

8.2.4 The Constituency Development Fund Committees.

8.2.5 The Project Management Committees.

8.3 Internal Audit Annual Work Plan

8.3.1 The internal audit annual work plan should be risk based but flexible to accommodate audit assignments from the Audit and Risk Management Committee and the senior management.

9.0 Responsibilities of Chief Internal Auditor

The duties of the Chief Internal Auditor include but are not limited to:-

- 9.1 Develop Risk Based Annual Work Plan and present it to the Audit and Risk Management Committee for approval.
- 9.2 Review compliance with the laws, regulations and procedures.
- 9.3 Establish that management has put in place policies and procedure guidelines to inform and guide staff in their duties performance.
- 9.4 Review adequacy of internal controls on management Systems/processes and give appropriate advice.
- 9.5 Review financial statements for accuracy and integrity.
- 9.6 Prepare Audit reports on areas reviewed and provide summary of findings to the Audit and Risk Management Committee
- 9.7 Make appropriate recommendations for improvement of Management processes/systems.
- 9.8 Develop guidelines for the Internal Audit Department.
- 9.9 Regularly update the Audit and Risk Management Committee on the progress of the internal audit work plan.
- 9.10 Communicate any significant changes on the Audit Annual Work plan to the Audit and Risk Management Committee.
- 9.11 Distribute reports on audit findings as agreed upon with the Management.
- 9.12 Report to the Audit and Risk Management Committee on any limitations in rendering the Audit service.
- 9.13 Organize in house workshops and seminars for the Internal Audit staff.
- 9.14 Communicate to the Audit and Risk Management Committee about audit staff adequacy and suitability.

9.15 Enhance team building within the Internal Audit Department

9.16 Develop and motivate the Internal Audit staff.

10.0 General comments

10.1 The Chief Internal Auditor shall seek interpretation on unclear Policies with the Management, Audit and Risk Management Committee or relevant authorities outside the Board whenever necessary.

10.2 The Internal Auditors should access all Government policies, regulations and procedure guidelines releases from time to time.

10.3 This Audit Charter will be subject to review as and when found necessary.

Approved this.....day of....., 2008.

Chairman – Constituencies Development Fund Board

Chief Executive Officer

Chair of the Audit and Risk Management Committee

Chief Internal Auditor