

COUNTY GOVERNMENT OF EMBU



Audit Committee of Embu County Government

Report on the Independence, Performance, and Competency of the Internal Audit Function

August 15, 2024

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Report on the Independence, Performance, and Competency of the Internal Audit Function

1. Introduction

Purpose of the Report:

This report is prepared by the Audit Committee to evaluate the independence, performance, and competency of the internal audit function within Embu County Government for the fiscal year ended 30th June 2024. The goal is to provide assurance to the County Executive that the internal audit function is operating effectively and fulfilling its role in enhancing the organization's governance, risk management, and control processes.

Scope:

The assessment covers the internal audit activities conducted during the period from 1st July 2023 to 30th June, 2024. This includes a review of the internal audit department's independence, execution of the audit plan, quality of work, qualifications of the audit staff, and other relevant factors.

2. Independence of the Internal Audit Function

Reporting Structure:

The internal audit function reports functionally to the Audit Committee and administratively to the Chief Officer, Finance. This structure ensures that the internal audit team has the necessary independence to perform its duties without undue influence from management.

Organizational Independence:

Throughout the review period, the internal audit function maintained a high level of organizational independence. The internal audit team was granted unrestricted access to all records, personnel, and physical properties relevant to its work. No instances of management interference were reported, and the Audit Committee is satisfied that the internal audit function operated independently of the areas it audits.

3. Performance of the Internal Audit Function

Audit Plan Execution:

The internal audit function successfully executed 65% of the annual audit plan. Four planned audits were deferred to the following year due to emerging risks that required immediate attention. The Audit Committee is satisfied with the prioritization and flexibility demonstrated by the internal audit team in addressing these risks.

Quality of Audits:

The quality of audit reports has been consistently high. The internal audit function identified several key areas for improvement in internal controls and provided actionable recommendations. The management's feedback on the audit process has been positive, indicating that the audits are adding value to the organization.

Timeliness:

Audit projects were generally completed within the scheduled timeframes. However, the audit on Infrastructure and recurrent expenditure experienced minor delays due to unforeseen complexities. The delays did not materially affect the audit outcomes, and the internal audit team took steps to ensure timely completion of the remaining audits.

Impact of Audits:

The internal audits conducted during the year had a significant impact on improving the organization's control environment. Notably, audits of procurement and IT security led to the implementation of enhanced controls that reduced risks in these critical areas.

Follow-up on Recommendations:

The internal audit function has established mechanisms for following up on audit recommendations. As of the end of the reporting period, 85% of the recommendations had been implemented, with the remaining 15% in progress. The Audit Committee is closely monitoring the implementation of these outstanding recommendations.

4. Competency of the Internal Audit Function

Qualifications and Experience:

The internal audit team is composed of five staff, including two Certified Public Accountants (CPAs) and three at various levels of the course. The team has extensive experience in auditing across various industries, which has been instrumental in delivering high-quality audits. The director of internal audit and one internal auditor were recruited in the financial year under review. The department also benefited from the transfer of one staff from the resource mobilisation office to the audit function in the year under review.

Knowledge and Skills:

The internal auditors need to have a continuous and deeper understanding of the Embu County's operations, regulatory environment, and industry-specific risks. This knowledge will enable the team to identify emerging risks and provide valuable insights to management and the Audit Committee.

Ongoing Training:

The internal audit team has demonstrated a strong commitment to professional development. Team members regularly participate in training programs, seminars, and conferences to stay current with industry trends and best practices. The team has attended seminars organised internally as well as those organised by the Institute of Internal Auditors and the Institute of Certified Public Accountants of Kenya. This ongoing education has enhanced the team's ability to address complex audit issues. In the coming financial year, the department has budgeted for further training for the committee and staff in the department.

Use of Technology:

The internal audit function needs to effectively leverage on technology to enhance audit efficiency and effectiveness. The department requires support to be able to carry out and embrace data analytics tools which are routinely used to identify anomalies and trends, enabling the team to focus on high-risk areas. In addition, the training and use of audit management software will also improve the documentation and tracking of audit activities.

Benchmarking:

A benchmarking exercise is recommended to be conducted during the next financial year to enable the comparison and learning of the Embu County's internal audit function against County Governments that are doing well in Audit e.g. Makueini County. From the preliminary discussions, Makueni County has internal audit structures and operations that are at par with or exceeds industry standards in terms of qualifications, audit quality, and the use of technology.

5. Challenges and Areas for Improvement**Identified Challenges:**

The internal audit function faced challenges related to resource constraints, particularly during peak periods. Although the team managed to complete the audit plan, additional resources may be needed to maintain audit quality and timeliness in the future.

Recommendations:

- **Increase Staffing Levels:** Consider adding one or two additional auditors to the team to ensure sufficient coverage and reduce workload pressures during peak periods.
- **Enhance Data Analytics Capabilities:** While the use of technology is commendable, further investment in advanced data analytics tools could provide deeper insights and enhance risk identification.
- **Continuous Improvement:** Encourage the internal audit function to continue seeking opportunities for improvement through feedback mechanisms and ongoing training.

6. Conclusion

Summary of Findings:

The Audit Committee finds that the internal audit function at Embu County Government is independent, performs at a high level, and possesses the necessary competency to fulfil its responsibilities. The internal audit team has the potential to make significant contributions to the organization's governance, risk management, and control processes with 4 additional staff and skills development.

Overall Assessment:

The internal audit function is effective and adds substantial value to Embu County Government. The Audit Committee recommends continued support for the internal audit team, including the allocation of additional resources to further strengthen its capabilities.

Audit Committee Chair: MOSES MBOGOMU Signature  Date 15.08.24
Embu County Government