

AUDIT COMMITTEE CHARTER

INTRODUCTION

In accordance with the Kenya Gazette Legal Notice No. 2690, the County Executive Committee Members of the County Government of Taita Taveta (hereafter referred to as “the CECM”) established the Audit Committee of the Taita Taveta County Government as a key component of its governance framework.

This charter provides the framework for the operations of Audit Committee in the County Government.

STRATEGIC OBJECTIVE

To provide an oversight on governance process, risk management and systems of internal control for achievement of County objectives, compliance with County policies, laws and regulation for efficient and sustainable service delivery.

PURPOSE AND AUTHORITY OF THE AUDIT COMMITTEE.

The purpose and authority of the Audit Committee shall be to provide assistance to the accounting officer(s) of the County Government.

The Audit Committee shall:

- Provide oversight of the implementation of accepted audit recommendations.
- Monitor the effectiveness of the County Governments performance management.
- Provide effective liason and facilitate communication between management and external audit.
- Obtain assurance from management that all financial and nonfinancial internal control and risk management functions are operating effectively and reliably.
- Provide an independent review of the County Government reporting functions to ensure the integrity of financial reports.

- Ensure that the County Government effectively monitors compliance with the legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.

The Audit Committee has the authority to conduct investigations in any matter within its scope of responsibility and obtain advice and assistance from outside legal, accounting or any other that may be necessary to enable the Committee perform its duties and responsibilities.

The Audit Committee will be serviced by the Countys' secretariat on all audit matters which include; planning the audit committee's work, Preparing the agenda and filing of minutes, the annual reports collection and distribution of information and rendering any necessary practical support.

COMPOSITION, APPOINTMENT AND MEETINGS.

The committee shall be composed of five members, four of whom shall be from suitably qualified persons one of which shall be the Chairperson. The Governor shall appoint a senior officer to sit in the committee who shall be the fifth member. Head of Internal Audit unit shall be the secretary to the committee. The County Executive Committee will ensure that at least one member has the relevant qualifications and expertise in audit, financial management or accounting with experience in public service, devolved system of government and knowledge in risk management. Such member must also be a member of a professional body in good standing. The committee members shall be required to dedicate sufficient time to the performance of Audit Committee work.

Audit Committee meetings shall be held four times in a year but an ad-hoc meeting may be convened.

MANDATE, ROLES, DUTIES AND RESPONSIBILITIES.

MANDATE

The Audit Committee shall:

- a) Assess the performance of the head of internal audit.¹
- b) Examine internal and external audit reports and recommendations after management response to ensure action is taken.
- c) Ensure that adequate mechanisms are in place for enabling the audit committee implement all PAC/PIC recommendations.
- d) The audit committee shall in its overseeing role focus on:-
 - ✓ The changing business environment;
 - ✓ Changing financial reporting requirement;
 - ✓ Audit findings,
 - ✓ Proposed audit scope, audit coverage and approaches with respect to complex and high risks areas;
 - ✓ Management response to specific audit recommendations.

ROLES

- (a) The audit committee plays a key role with respect to the integrity of the County Government financial information, its system of governance, risk and internal controls, and the legal and ethical conduct of management and employees.
- (b) Depending upon circumstances affecting an entity, the functions undertaken by an audit committee will generally encompass the following areas:
 - (i) Evaluating whether processes are in place to address key roles and responsibilities in relation to risk management.
 - (ii) Evaluating the adequacy of the control environment to provide reasonable assurance that

¹ The Kenya Gazette, vol. CXVIII-No.40, 15th April 2015, Gazette Notice No.2690, Audit committees guidelines for County Governments

the systems of internal control are of a high standard and functioning as intended.

(iii) Performing an independent review of the financial statements to ensure the integrity and transparency of the financial reporting process.

(iv) Monitoring the effectiveness of an entity's performance information and compliance with the performance management framework and performance reporting requirements.

(v) Evaluating the quality of the internal audit function, particularly in the areas of planning, monitoring and reporting.

(vi) Engaging with external audit and assessing the adequacy of management response to issues identified by audit.

(vii) Reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements in order to promote a culture committed to lawful and ethical behaviour.

RESPONSIBILITIES

The committee shall carry out the following responsibilities:

Financial Statements

- a) Review significant accounting and reporting issues. They include among others, complex or unusual transactions and recent professional and regulatory pronouncements.
- b) Review with management and the external auditors the results of the audit, including any difficulties encountered.
- c) Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- d) Review other sections of the annual report and related regulatory reports before their release and consider the accuracy and completeness of the information.

- e) Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing Standards.
- f) Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- g) Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

Internal Control

- a) Consider the effectiveness of the County's internal control system.
- b) Understand the scope of internal and external auditors' review of internal control over financial reporting.

Internal Audit

- a) Approve the internal audit charter.
- b) Approve decisions regarding the appointment and removal of the head of internal audit.²
- c) Approve the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.
- d) Review with the Head of Internal Audit the internal audit budget, resource plan, activities, and organizational structure of the internal audit function.
- e) At least once per year, review the performance of the Head of Internal Audit and concur with the annual compensation and salary adjustment.

² The Kenya Gazette, vol. CXVIII-No.40, 15th April 2015, Gazette Notice No.2690, Audit committees guidelines for County Governments

- f) Review the effectiveness of the internal audit function, including conformance with the Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
- g) On a regular basis, meet separately with the Head of Internal Audit to discuss any matters that the committee or internal audit believes should be discussed privately.

.External Audit

- a) Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- b) Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- c) Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the County, including non-audit services, and discussing the relationships with the auditors.
- d) On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

- a) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- b) Review the findings of any examinations by regulatory agencies, and any auditor observations.
- c) Review the process for communicating the code of conduct to counties personnel, and for monitoring compliance therewith.
- d) Obtain regular updates from management and Counties legal counsel regarding compliance matters.

Reporting responsibilities

- a) Regularly report to the Governor about committee activities, issues, and related recommendations.
- b) Provide an open avenue of communication between internal audit, the external auditors, and the management.

Financial reporting.

- a) The audit committee shall review, and report to the Governor on the significant financial reporting issues and judgements made in connection with the preparation of the County Government financial statements (having regard to matters communicated to it by the auditor), interim reports, preliminary announcements and related formal statements.

Narrative Reporting.

- a) When requested by the executive, the audit committee shall review the content of the annual report and accounts and advise the Executive, Accounting Officers, and the Boards on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for stakeholders to assess the entity 's performance.
- b) Review any other reports of the County.

Other Responsibilities.

- a) Perform other activities related to this charter as requested by the County Executive.
- b) Institute and oversee special investigations as needed.
- c) Review and assess the adequacy of the committee charter annually, requesting management approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- d) Confirm annually that all responsibilities outlined in this charter have been carried out.

Assessment of the Audit Committee Performance

Annual Self-Assessment

The audit committee shall assess its performance and achievements against its mandate, roles, duties & responsibilities that shall be captured in the calendar of activities on an annual basis.

The aim of the self-assessment is to ensure that the audit committee is meeting its objectives efficiently and effectively. The self-assessment report shall be presented by the chair to the Governor. The report should be ready at the same time as the final accounts of the entity.

Areas for self-assessment shall include the audit committees' understanding, communication and oversight responsibilities in regard to the financial statements, risk management, internal controls, compliance, ethics, management, internal auditing, external auditing, resources and special assignments and investigations.

The Committee shall also assess its composition, training, meetings, charter and performance.

Where the self-assessment highlights a need for enhancements to the role, operational processes or membership of the committee, the chair shall take action to ensure that such enhancements are implemented. The chair shall need to consult with the accounting officer or County Government to obtain appropriate support to ensure all enhancements are implemented.

Management feedback

The Audit Committee shall seek feedback from the senior management on their effectiveness.

Use of an External Facilitator (External Evaluation)

The Audit Committee may use an external facilitator to provide assistance with the self-assessment process. The committee chair and external facilitator shall provide feedback to the Audit Committee members and present the findings of the evaluation to the Governor.

Review of the Audit Committee charter

This Charter will be reviewed at least annually by Head of Internal Audit and shall be approved by Audit Committee.

Approved this _____ day of _____,

Chairman of the County Audit Committee

Governor

Head of Internal Audit