

I 21

**REPUBLIC OF KENYA  
MINISTRY OF FINANCE**

Telephone No. 252299  
FINANCE-NAIROBI  
Fax No. 330426  
When replying please quote



The Treasury  
P.O. Box 30007  
**NAIROBI.**

*Secr. please circulate*  
*18.10.05*

Ref No: MOF/IAG /GEN/055/(16)

4<sup>th</sup> October, 2005

**TREASURY CIRCULAR No. 16/2005**

**To: All Accounting Officers**

**All Chief Executives of State Corporations**

**All Clerks to Local Authorities**

*technical*  
*All offices*  
*to see*  
*7*

**ESTABLISHMENT AND OPERATIONALISATION OF AUDIT  
COMMITTEES IN THE PUBLIC SERVICE**

**INTRODUCTION**

Treasury Circular No.AG/3/080/6/(61) of 8<sup>th</sup> August 2000 provided the mandate and the guidelines to be followed when establishing ministerial audit committees. However, concerns have been raised regarding the adequacy of the guidelines contained therein particularly on the appointment and composition of the membership which has hindered the ministerial audit committees from being effective due to lack of independence and objectivity.

In order to enhance oversight, governance, accountability and transparency in public service, the government has decided to enforce establishment and strengthen audit committees in all ministries, departments, state corporations and local authorities. The audit committees will have the responsibility for independent in-depth review of the framework of internal control and of the internal audit process.

All accounting officers, chief executive officers of state corporations and clerks to councils are, therefore, required to establish audit committees and ensure that they are fully functional.

The following terms of reference with regard to their establishment and operations shall be observed.

## **1.0 STATUS**

The audit committee shall have non-executive status and shall serve in an advisory capacity to the relevant accounting officer/chief executive officer.

## **2.0 MANDATE, DUTIES & RESPONSIBILITIES**

### **2.1 Mandate**

The mandate of the audit committee shall include: -

- 2.1.1 Assisting the accounting officer/chief executive officer in enhancing internal controls in order to improve efficiency, transparency and accountability.
- 2.1.2 Reviewing audit issues raised by both internal and external auditors.
- 2.1.3 Resolving unsettled and unimplemented Public Accounts and Public Investment Committees' (PAC/PIC) recommendations.
- 2.1.4 Enhancing communication between management, internal and external audit and fostering an effective internal audit function.

However, the mandate of the audit committee shall not be limited in any way, which would prevent it from properly performing its duties and responsibilities.

### **2.2 Duties & Responsibilities**

Duties and responsibilities covering three broad areas relating to compliance with internal controls, financial reporting, and governance shall include: -

- 2.2.1 Evaluating adequacy of management procedures with regard to issues relating to risk management, control and governance.

- 2.2.2 Reviewing and approving the audit charter where applicable and the internal audit annual work plans.
- 2.2.3 Reviewing the internal and external audit findings and recommendations and proposing corrective and preventive action where necessary.
- 2.2.4 Reviewing the systems established to ensure sound public financial management and internal controls, as well as compliance with policies, laws, regulations, procedures, plans, and ethics.
- 2.2.5 Initiating special audit/investigation on any allegations, concerns and complaints regarding corruption, lack of accountability and transparency in consultation with the accounting officer/chief executive officer.

The above responsibilities should not prevent the audit committee from carrying out any other tasks, which are within its mandate.

### **3.0 MEMBERSHIP**

3.1 The membership of the audit committee in line ministries/departments to be appointed by the respective accounting officers shall comprise of at least five (5) members who shall include:-

3.1.1 The chairperson, who shall be a serving public officer either within or outside the line ministry but not below job group "R" or equivalent.

3.1.2 Three (3) members appointed from the heads of departments but not directly involved in the processing of financial transactions of the ministry/department.

3.1.3 One (1) member to represent the Permanent Secretary/ Treasury.

3.2 The membership of an audit committee in a state corporation to be appointed by the chief executive officer in consultation with the board shall comprise of non executive board members including either a representative of the Permanent Secretary/Treasury or the accounting

officer of the line ministry. The existing audit committees, if any, shall be required to adapt these terms of reference.

- 3.3 The membership of an audit committee in a local authority to be appointed by the clerk to the council in consultation with the full council shall comprise of councilors who are not chairpersons of any other committee of the council. The provincial local government officer or his/her representative shall represent the accounting officer in an ex-officio capacity.
- 3.4 In all the above cases the chairperson should be a person with broad knowledge, skills and understanding of the central, local government or state corporation environment and accountability structures
- 3.5 The head of the internal audit unit or his/her representative shall provide the audit committee with a secretariat.
- 3.6 The heads of finance, accounting, procurement, internal audit shall form part of the technical team to guide the committee but shall have no voting power. Other technical representatives may be co-opted as and when required.

#### **4.0 MEETINGS**

- 4.1 The audit committee shall meet at least four times a year. However, the chairman may convene additional meetings as may be deemed necessary.
- 4.2 A minimum of three (3) members, including the chairman, of the audit committee present shall form a quorum.
- 4.3 The audit committee may request/co-opt any member of staff of the ministry/state corporation/local authority to attend any meeting(s) to assist it with its discussions on any particular matter.

#### **5.0 ACCESS**

The heads of internal and external audit units or their appointed representatives shall have unrestricted and confidential access to the chair of the audit committee at all times.

## **6.0 REPORTING**

- 6.1 Report/minutes shall be made available to the accounting officer, chief executive officer, clerk to the council following an audit committee meeting, clearly indicating its findings, conclusions, and recommended plan of action.
- 6.2 A register shall be maintained by the secretariat on all external and internal audit findings /recommendations deliberated upon by the committee for follow up and evaluation of action taken.

## **7.0 INFORMATION REQUIREMENTS**

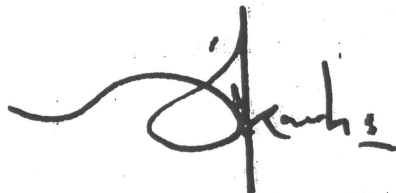
The audit committee, through the secretariat, shall be provided for each meeting with: -

- 7.1 A progress report from the head of internal audit unit summarizing:
  - 7.1.1 Work performed compared with work planned.
  - 7.1.2 Key issues emerging from internal audit work done.
  - 7.1.3 Status of management response to audit findings and recommendations.
  - 7.1.4 Changes to the annual work plan.
  - 7.1.5 Any limitation in resources that may affect the implementation of internal audit work plan.
- 7.2 The audit committee shall review and discuss all external audit reports and queries received and make appropriate recommendations for necessary action. The external audit representative may attend meetings of the audit committee during which reviews and discussions take place.

The above list suggests minimum requirements for the inputs, which should be provided to the audit committee. In some cases more information may have to be provided as requested by the audit committee.

Therefore, these terms of references shall become operational with effect from 31<sup>st</sup> October, 2005 and super-cedes the guidelines contained in Treasury Circular No. AG/3/086/6/(61) of 8<sup>th</sup> August 2000.

The contents of this circular should be brought to the attention of all officers working within your ministry/state corporation/local authority.



**JOSEPH K. KINYUA, CBS**  
**PERMANENT SECRETARY**

cc: Permanent Secretary/Secretary to the Cabinet  
And Head of Public Service  
Office of the President  
**NAIROBI**

Hon. Attorney General  
Attorney General Chambers  
Sheria House  
**NAIROBI**

Controller & Auditor General  
Kenya National Audit Office (KENAO)  
Kencom House  
**NAIROBI**

Inspector General of State Corporation  
Office of the President  
**NAIROBI**

Internal Auditor General  
Bima House  
**NAIROBI**