

**THE PUBLIC FINANCE MANAGEMENT
(AMENDMENT) BILL, 2026**

A Bill for

**AN ACT of Parliament to amend the Public Finance
Management Act; and for connected purposes**

ENACTED by the Parliament of Kenya, as follows—

Short title.

1. This Act may be cited as the Public Finance Management (Amendment) Act, 2026.

Repeal and replacement of section 73 of Cap 412A.

2. The Public Finance Management Act (in this Act referred to as the “principal Act) is amended by repealing section 73 and replacing it with the following new section—

Establishment and objectives of the Internal Auditor-General Office.

73. (1) There is established an office to be known as the Internal Auditor-General Office within the National Treasury.

(2) The head of the Internal Auditor-General Office shall be recruited through a competitive process by the Public Service Commission.

(3) The objectives of the Internal Auditor-General Office shall be to—

- (a) formulate policies and provide strategic direction for the internal audit function across National and county government entities;
- (b) coordinate and provide quality assurance for internal audit functions within ministries, departments and agencies;
- (c) provide support in regard to internal audit quality assurance to other Government entities upon request;
- (d) promote uniform application of internal audit standards and risk management frameworks; and
- (e) advise on strengthening governance, risk management and internal control systems within the public sector.

Insertion of new sections of Cap 412A.

3. The principal Act is amended by inserting the following new sections immediately after section 73—

Functions of the
Internal Auditor-
General Office.

73A. (1) The functions of the Internal Auditor-General Office shall include—

- (a) advising the Cabinet Secretary and the Principal Secretary on emerging issues in internal auditing;
- (b) developing and implementing the use of innovative approaches in performing independent assessment of systems, controls and efficiencies guided by professional standards;
- (c) promoting risk management and providing the management with consulting services to improve the overall government operations at both levels of government;
- (d) providing capacity building for both levels of governments including developing curriculum, training materials and undertake training for audit committees;
- (e) coordinate governance audits by accredited governance auditors in ministries, departments and agencies;
- (f) establishing internal audit quality assurance and improvement programmes in ministries, departments, agencies and institutions of basic learning to foster compliance with internal audit standards and risk management in line with the guidelines prescribed by the Public Sector Accounting and Internal Audit Standards Board;
- (g) consolidating quarterly assurance reports from national and county government entities and preparing an annual consolidated report on the performance of the internal

audit function and audit committees across public sector entities;

- (h) preparation and submission of annual reports on the status and level of compliance with internal audit recommendations in national and county government entities to the Cabinet Secretary;
- (i) prescribing and overseeing the implementation of suitable internal audit management systems for use at both levels of government; and
- (j) designating internal auditors within ministries, departments and agencies;
- (k) conducting risk-based thematic audit reviews, in ministries, departments, agencies and other public sector entities to identify cross cutting systemic risks and provide recommendations; and
- (l) monitoring and evaluate the implementation of internal audit functions and audit committee recommendations in national and county government entities and compiling nonconformity report for submission to Cabinet Secretary.

(2) The Internal Auditor-General Office shall ensure that its arrangements for conducting internal auditing include—

- (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.

Role of Cabinet Secretary in Internal Auditor-General Office

73B. The Cabinet Secretary shall—

- (a) develop the policy and financial framework in accordance with Constitutional principles within which the Internal Auditor-General Office operates;
- (b) delegate to the head of the Internal Auditor-General Office the operational decisions on internal audit and the day-to-day management of the Office;
- (c) establish a distinct budget line for the Internal Auditor-General Office and the audit committees;
- (d) ensure that the Internal Auditor-General Office has the resources and skills to manage the internal audit function according to international best practices; and
- (e) be accountable to Parliament for the work of the Internal Auditor-General Office.

National government entity to maintain internal auditing arrangements

73C. (1) Every national government entity shall establish an internal audit

function which shall form part of the entity.

(2) The Cabinet Secretary may, by regulations, prescribe requirements to be complied with in conducting internal audits.

(3) The internal audit function established under subsection (1) shall comply with the internal audit standards and procedures issued by the Public Sector Accounting Standards Board.

(4) A national government entity shall ensure that internal audits in respect of the entity are conducted in accordance with international best practices.

(5) An accounting officer of a national government entity shall, for purposes of subsection (1), ensure that the organizational structure of the internal audit unit positions the head of the internal audit function at a strategic level within the governance structure of the entity and facilitates unrestricted access to the accounting officer for the national government entity and the audit committee.

(6) The head of the internal audit function under a national government entity shall enjoy operational independence through the reporting structure by reporting administratively to the accounting officer for the national government entity and functionally to the audit committee.

(7) The head of the internal audit function under a national government entity shall submit—

- (a) audit reports to the accounting officer and the audit committee in the prescribed manner not later than the twentieth day after the end of each quarter;
- (b) a quarterly assurance report to the Internal Auditor-General Office in the prescribed format; and
- (c) not later than three months after the end of each financial

year, submit an annual assurance report to the Internal Auditor-General Office in the prescribed format.

(8) An accounting officer of the national government entity shall ensure that the internal audit function is adequately resourced and staffed to effectively discharge its mandate.

(9) An accounting officer of the national government entity shall be responsible for the implementation of the recommendations of the head of internal audit and ensure that responses to issues raised in internal audit reports are provided within fourteen days of submission of the draft internal audit report.

(10) Every national government public entity shall establish an audit committee and a risk management committee whose composition and functions shall be as prescribed by the regulations.

Amendment of section 81 of Cap 412A.

4. Section 81 of the principal Act is amended by inserting the following new subsection immediately after subsection (3)—

(3A) Not later than thirty days after the end of each financial year, the accounting officer for the national government entity shall submit the entity's financial statements to the internal audit function for review and presentation to the entity's audit committee prior to submission to the Internal Auditor-General Office and the National Treasury.

Insertion of new sections of Cap 412A.

5. The principal Act is amended by inserting the following new sections immediately after section 154—

Independence of County Head of Internal Audit services

154A. (1) The County Head of Internal Audit Services shall be an office in the County Treasury.

(2) The County Head of Internal Audit Services, in leading the internal audit function within the County Treasury, is responsible for operational aspects of internal audit function within the county government entities including—

(a) advising the County Executive Committee Member and the

Chief Officer on emerging issues in internal auditing;

- (b) developing and implementing the use of innovative approaches in performing independent assessment of systems, controls and efficiencies guided by professional standards;
- (c) promoting county government-wide risk management and provide the management with consulting services to improve the overall county government operations;
- (d) providing capacity building for county government entities including developing curriculum, training materials and undertake training for audit committees; and
- (e) reporting annually to the County Treasury on the internal audit function performance.

(3) The County Head of Internal Audit Services shall enjoy operational independence through the reporting structure by reporting administratively to the the County Executive Committee Member responsible for matters related to finance and functionally to the audit committee.

(4) The County Executive Committee Member responsible for matters related to finance shall ensure that the office of the County Head of Internal Audit Services is adequately resourced and staffed to effectively discharge its mandate.

(5) The County Head of Internal Audit Services shall—

- (a) ensure that appropriate internal audit arrangements are established in each department of the county government in accordance with regulations; and
- (b) report annually to the County Executive Committee, through the County Executive Committee Member responsible for matters

related to finance, on the state of internal audit in the county government.

Repeal and replacement of section 155 of Cap 412A.

6. The principal Act is amended by repealing section 155 and replacing it with the following new section—

County government entity to maintain internal auditing arrangements.

155. (1) Every county government entity shall establish an internal audit function which shall form part of the entity.

(2) The internal audit function established under subsection (1) shall comply with regulations prescribed under this Act and the internal audit standards and procedures issued by the Public Sector Accounting Standards Board.

(3) A county government entity shall ensure that internal audits in respect of the entity are conducted in accordance with international best practices.

(4) The arrangements for the conduct of internal auditing for a county government entity include—

- (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.

(5) An accounting officer of a county government entity shall, for purposes of subsection (1), ensure that the organizational structure of the internal audit unit positions the head of the internal audit function at a strategic level within the governance structure of the entity and facilitates unrestricted access to the accounting officer and the audit committee.

(6) The head of the internal audit function under a county government entity shall enjoy operational independence through the reporting structure by reporting administratively to the accounting officer and functionally to the audit committee.

(7) The head of the internal audit function under a county government entity shall submit—

- (a) audit reports to the accounting officer and the audit committee in the prescribed manner not later than the twentieth day after the end of each quarter;
- (b) a quarterly assurance report to the County Head of Internal Audit Services in the prescribed format; and
- (c) not later than three months after the end of each financial year, submit an annual assurance report to the County Head of Internal Audit Services in the prescribed format.

(8) An accounting officer of the county government entity shall ensure that the internal audit function is adequately resourced and staffed to effectively discharge its mandate.

(9) An accounting officer of the county government entity shall be responsible for the implementation of the recommendations of the head of internal audit and ensure that responses to issues raised in internal audit reports are provided within fourteen days of submission of the draft internal audit report.

(10) Every county government public entity shall establish an audit committee and a risk management committee whose composition and functions shall be as prescribed by the regulations.

Amendment of section 164 of Cap 412A.

7. Section 164 of the principal Act is amended by inserting the following new subsection immediately after subsection (3)—

(3A) Not later than thirty days after the end of each financial year, the accounting officer for the county government entity shall submit the entity's financial statements to the internal audit function for review and presentation to the entity's audit committee prior to submission to the Internal Auditor-General Office and the County Treasury.

Amendment of section 194 of Cap 412A.

8. Section 194 of the principal Act is amended in subsection (1) by inserting the following new paragraphs immediately after paragraph (e)—

- (ea) prescribe internal audit and risk management standards, procedures and frameworks and reporting templates consistent with this Act;
- (eb) prescribe a framework for the phased implementation of accrual accounting by the Government;
- (ec) prescribe sustainability reporting standards and formats for reporting by State organs and public sector entities.

Amendment of section 204 of Cap 412A.

9. Section 204 of the principal Act is amended in subsection (1) by inserting the following new paragraph immediately after paragraph (g)—

- (ga) contravenes section 73C.

MEMORANDUM OF OBJECTS AND REASONS

The principal object of this Bill is to amend the Public Finance Management Act (Cap. 412A) to establish the Internal Auditor-General Office as an office within the National Treasury and to enhance the internal audit functions of national and county government entities in line with best international practises.

Clause 1 of the Bill provides the short title of the Act.

Clause 2 of the Bill proposes the repeal and replacement of section 73 of the Act, to establish the Office of the Internal Auditor-General within the National Treasury for purposes of harmonizing the provisions of the current section 73(3) of the Act with regulation 163 of the Public Finance Management (National Government Entities) Regulations 2015 which provides that the office of the Internal Auditor-General shall be an office in the National Treasury.

Clause 3 of the Bill proposes to insert new sections 73A to 73C to the principal Act to mandate national government entities to establish internal audit function within the entities.

Clause 4 of the Bill provides for amendment of section 81 of the principal Act to mandate the accounting officer of a national government entity to submit internal audit financial statements to the audit committee for review prior to submission to the Office of the Auditor General and the National Treasury.

Clause 5 of the Bill proposes to insert a new section 154A to the principal Act to provide for the County Head of Internal Audit Services as an office in the County Treasury.

Clause 6 of the Bill proposes the repeal and replacement of section 155 of the Act to mandate county government entities to establish internal audit function within the entities.

Clause 7 of the Bill provides for amendment of section 164 of the principal Act to mandate the accounting officer of a county government entity to submit internal audit financial statements to the audit committee for review prior to submission to the Office of the Auditor General and the County Treasury.

Clause 8 of the Bill provides for amendment of section 194 of the principal Act to provide additional functions of the Public Sector Accounting Standards Board.

Clause 9 of the Bill provides for amendment of section 204 of the principal Act to empower the Cabinet Secretary to impose sanctions to a national government entity that contravenes section 73C.

Dated the....., 2026.

JOHN MBADI NG'ONGO,
Cabinet Secretary for the National Treasury.

Section 73 of Cap. 412A, which the Bill proposes to amend—

73. National government entity to maintain internal auditing arrangements

(1) Every national government entity shall ensure that it complies with this Act and—

(a) has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board; and

(b) where any regulations are in force under subsection (2), those regulations are complied with.

(2) Regulations may prescribe requirements to be complied with in conducting internal audits.

(3) The Internal Auditor-General Department of the National Treasury shall ensure that its arrangements for conducting internal auditing include—

(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.

(4) A national government entity shall ensure that internal audits in respect of the entity are conducted in accordance with international best practices.

(5) Every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations.

Section 81 of Cap. 412A, which the Bill proposes to amend—

81. Annual reporting by accounting officers

(1) At the end of each financial year, the accounting officer for a national government entity shall prepare financial statements in respect of the entity.

(2) The accounting officer shall include in the financial statement—

(a) appropriation accounts, showing—

- (i) the services for which the appropriated money was spent;
 - (ii) the actual amount spent on each service;
 - (iii) the status of each vote compared with the appropriation for the vote;
 - (iv) a statement explaining any variations between the actual expenditure and the sums voted; and
 - (v) any other information specified by the National Treasury;
- (b) a statement of the entity's debt which is outstanding at the end of the financial year;
 - (c) a statement of the entity's debt guaranteed by the national government as at the end of the financial year;
 - (d) a statement of the entity's assets and liabilities as at the end of the financial year in respect of the recurrent Vote, development Vote and funds and deposits;
 - (e) a statement of the accounting policies followed in preparing the financial statement; and
 - (f) a statement of the national government entity's performance against predetermined objectives.
- (3) The accounting officer shall prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time.
- (4) Not later than three months after the end of each financial year, the accounting officer for the entity shall—
- (a) submit the entity's financial statements to the Auditor-General and a copy of the statement to the Controller of Budget, the National Treasury and the Commission on Revenue Allocation; and
 - (b) publish and publicise the financial statements.
- (5) In the case of an entity that is a state corporation, the accounting officer shall submit the corporation's financial statements to the Cabinet Secretary responsible for matters relating to that corporation who shall, upon approving it submit a copy to the Cabinet Secretary.

Section 155 of Cap. 412A, which the Bill proposes to amend—

155. County government entity to maintain internal auditing arrangements

- (1) A county government entity shall ensure that it complies with this Act and—
- (a) has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board; and
 - (b) if any regulations are in force under subsection (2), those regulations are complied with.
- (2) Regulations may prescribe requirements to be complied with in conducting any audits.
- (3) The arrangements for the conduct of internal auditing for a county government entity include—

- (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.
- (4) A county government entity shall ensure that the arrangements for conducting internal audits in respect of the entity are in accordance with international best practices for internal auditing.
- (5) A county government entity shall establish an internal auditing committee whose composition and functions are to be prescribed by the regulations

Section 164 of Cap. 412A, which the Bill proposes to amend—

164. Annual reporting by accounting officers

- (1) At the end of each financial year, the accounting officer for a county government entity shall prepare financial statements in respect of the entity in formats to be prescribed by the Accounting Standards Board.
- (2) The accounting officer shall include in the financial statements—
- (a) appropriation accounts, showing—
 - (i) the services for which the appropriated money was spent;
 - (ii) the amounts actually spent on each service; and
 - (iii) the status of each Vote compared with the appropriation for the Vote; and
 - (iv) a statement explaining any variations between the actual expenditure and the sums Voted; and
 - (v) any other information specified by the County Treasury;
 - (b) a statement of the entity's debt that is outstanding at the end of the financial year;
 - (c) a statement of the entity's debt guaranteed by the national government as at the end of the financial year;
 - (d) a statement of the entity's assets and liabilities as at the end of the financial year in respect of—
 - (i) each Vote, clearly identifying between recurrent and development expenditure; and
 - (ii) funds and deposits;

- (e) a statement of the accounting policies followed in preparing the financial statement; and
 - (f) a statement of the county government entity's performance against predetermined objectives.
- (3) The accounting officer shall prepare the financial statements in a form that complies with relevant accounting standards prescribed and published by the Accounting Standards Board from time to time.
- (4) Within three months after the end of each financial year, the accounting officer for an entity shall—
- (a) submit the entity's financial statements to the Auditor-General; and
 - (b) deliver a copy of the statements to the relevant County Treasury, the Controller of Budget, and the Commission on Revenue Allocation.
- (5) In the case of an entity that is a County corporation, the accounting officer shall submit a copy of the county corporation's financial statements to the County Executive Committee member responsible for that corporation who shall approve and forward the statements to the County Executive Committee member for finance.

Section 194 of Cap. 412A, which the Bill proposes to amend—

194. Functions of the Board

- (1) The Accounting Standards Board shall provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all State organs and public entities, and shall in particular perform the following functions—
- (a) set generally accepted accounting and financial standards;
 - (b) prescribe the minimum standards of maintenance of proper books of account for all levels of Government;
 - (c) prescribe internal audit procedures which comply with this Act;
 - (d) prescribe formats for financial statements and reporting by all state organs and public entities;
 - (e) publish and publicise the accounting and financial standards and any directives and guidelines prescribed by the Board;
 - (f) in consultation with the Cabinet Secretary on the effective dates of implementation of these standards, Gazette the dates for application of the standards and guidelines; and
 - (g) perform any other functions related to advancing financial and accounting systems management and reporting in the public sector.

Section 204 of Cap. 412A, which the Bill proposes to amend—

204. Cabinet Secretary may impose institutional sanctions on national government entities

- (1) The Cabinet Secretary may apply sanctions to a national government entity that—

- (a) approves the contracting of debt beyond any debt limits provided under this Act;
 - (b) defaults on a loan;
 - (c) provides inaccurate information to public officers regarding financial matters;
 - (d) issues a guarantee without proper authorisation;
 - (e) issues a guarantee for an amount in excess of any limits set under this Act;
 - (f) creates liabilities in excess of its ability to finance those liabilities;
 - (g) fails to address issues raised by the Auditor-General to the satisfaction of the Auditor-General; or
 - (h) contravenes section 196.
- (2) The Cabinet Secretary may apply any of the following sanctions to a national government entity that has done, or failed to do, anything referred to in subsection (1)—
- (a) impose on the entity reporting requirements additional to those required by this Act or any other written law;
 - (b) suspend the ability of the entity to reallocate funds;
 - (c) withhold from the entity funds to which the entity would otherwise be entitled under the Constitution or this Act;
 - (d) suspend the entity's authority to borrow money;
 - (e) treat any accumulated liabilities as a charge on the entity's future revenues;
 - (f) appoint one or more administrators to administer the entity's financial affairs for such period as may be specified in the appointment.