

Management BoardOutline 2008/09 Audit Programme and revised Audit Charter

Paper from the Head of the Office of the Chief Executive

Purpose

1. This paper presents the outline Audit Programme for 2008/09, for the Board's comments, and the revised Audit Charter, for its approval.

Conclusions and decisions

2. **This paper asks the Board to consider whether the proposed outline Audit Programme for 2008/09 focuses on the areas of greatest risk and concern to the Board, prior to detailed discussions between the Head of Internal Audit and Directors General on the proposed audits.**
3. **It also asks the Board to approve the revised Audit Charter, prior to its presentation to the Audit Committees in April.**

Outline Audit Programme 2008/09

4. An outline Audit Programme for 2008/09 is attached at Appendix 1.
5. The outline audit programme focuses on areas shared with the House of Lords: on PICT and on Works but also includes follow up work on the security contract and CRSA reviews in the Finance and HR areas. The outline plan sets the scene for a more co-ordinated approach to the audit of shared areas with the House of Lords. It has been drawn up collaboratively by Internal Audit and the House of Lords Internal Auditor following discussions with the National Audit Office (NAO) and PricewaterhouseCoopers (internal audit partner).
6. A first draft of the outline programme was put before the Administration Estimate Audit Committee in January. It was agreed that it would be unhelpful to undertake a separate audit report of the Visitors Reception Building project while Roy Davies' evaluation review was underway. A detailed audit programme will be put before the Audit Committee at its next meeting on 2 April.
7. Before Internal Audit begins detailed discussions with Directors General on the proposed programme of audits, the Board should consider:

- Which are its main areas of concern?
 - Which are the main areas of risk?
 - Does the outline audit programme focus on these areas?
 - Is the focus on shared areas right?
 - In particular, is the focus on PICT and on Works right?
 - Are there other areas which the Board thinks should be priorities for audit?
8. Once the Board has agreed on an outline programme, it is suggested that discussions with Directors General should address the detail of the audits proposed, rather than revisit the principle of auditing these areas. **Is the Board content with this approach?**

Revised Audit Charter

9. A revised version of the Internal Audit Charter for the House of Commons is attached at Appendix 2. The charter sets out the role of internal auditing within the House of Commons, and the scope of internal audit work. It is revised once a year. The latest revision is substantial and takes account of the Scrutiny Unit Review of IRS, changes in governance and reporting lines post-Tebbit, and proposed changes to international standards.
10. The charter does not meet international standards in one respect: it does not include measures of performance. A set of Key Performance Indicators, applicable to the Internal Audit Unit and its internal audit partner, is being considered as part of the extension of the PwC contract to 30 September 2009.
11. It is intended to present the revised Audit Charter to the Audit Committees at their next meeting on 2 April. The external members of the Audit Committees have been consulted on the draft.
12. **Is the Board content for the Charter to be revised as proposed?**

Philippa Helme
Head, Office of the Chief Executive

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Appendix 1**2008 – 09 Outline Internal Audit Programme**

including topics for joint review by House of Commons and House of Lords internal audit

Area	Audit subject	Audit Resource	Comments
PICT	IT Asset Management	HoC and HoL	Deferred review from the HoC 07/08 audit programme pending the implementation of the new Asset Management strategy Review to look at the stewardship and the recording of IT assets and the reconciliation of the asset register.
PICT	Performance Measures	HoC and HoL	Audit scope to focus on PICT's performance and delivery of Customer support services (inc the help desk)
PICT	IT Strategy	HoC and HoL	NAO currently working in this area will scope after Hoc and HoL see their report
PICT	Network infrastructure	External expert resource	Scope will focus on the risk areas relating to the delivery of a highly effective and resilient IT network including, performance monitoring; maintenance, management of capacity, resilience, security and intrusion protection measures
Works	Works Procurement	HoC and HoL	It was agreed that the Hoc and the HoL audit teams would follow up the recommendations made in the PwC tender evaluations report (2006) – this work will be done in 08-09). In addition, procurement frameworks and term contractors will also be examined.
Works	Performance Measures	Hoc and HoL	Scope:maintenance
Works	M&E Project	External specialist resource	On-going project assurance throughout the life of the project
Corporate	Metropolitan Police Contract	HoC and HoL Input from NAO	Follow- up of the recommendations made in the PwC contract management report (2007)
Finance	Monthly accounting Cash flow management Payroll	HoC	Control risk self assessment of financial processes
Human Resources	Recruitment Induction	HoC	Control risk self assessment of HR policies and procedures

Area	Audit subject	Audit Resource	Comments
	Staff expenses		

Appendix 2

Internal Audit Charter for the House of Commons: revised February 2008

Purpose of the Charter

1. This charter sets out the purpose, role, responsibility, status and authority of internal auditing within the House of Commons, and outlines the scope of internal audit work.

Internal Audit Service

2. Within the House of Commons the internal audit service is provided by an in-house internal audit unit (IAU) and a private sector partner (audit partner).

Private sector partner

3. The IAU currently works in partnership with PricewaterhouseCoopers LLP (PwC). The present partnership arrangement between PwC and the House commenced on 1st October 2004. The primary contract period of 4 years, which expires on 30th September 2008, will be extended for 1 year to 30 September 2009.

Governance

4. The IAU is part of the Office of the Chief Executive (OCE), which supports the Clerk of the House in his roles as Chief Executive, Accounting Officer and Corporate Officer, and the Management Board in its strategic leadership of the House Service. The Head of the OCE is the Reporting Officer for the Head of Internal Audit (HIA) and the Clerk of the House is the Counter-signing Officer.

Span of responsibilities

5. Internal Audit (IA, comprising the IAU and the audit partner) is responsible for providing assurance to the Clerk of the House on the adequacy of risk management, control and the governance processes supporting the Administration Estimate and the Members Estimate. The Clerk of the House is the Accounting Officer for both Estimates.

6. IA also provides an internal audit service to the History of Parliament Trust, a grant aided body funded from the Administration Estimate. IA's work also contributes to the statement on internal controls included in the annual accounts of the Parliamentary Contributory Pension Fund (PCPF – the pension scheme for Members of Parliament) and the Members Fund.

Approval

7. This charter is reviewed and approved annually by the Clerk of the House, the Management Board and both Audit Committees (the Administration Estimate Audit Committee and the Members Estimate Audit Committee) to ensure that it remains relevant and up to date.

Purpose of internal audit

8. The primary purpose of internal audit in the House of Commons is to provide appropriate, independent and objective assurance to the Accounting Officer on risk management, control and governance processes by measuring and evaluating their effectiveness in achieving the organisation's agreed objectives. Internal Audit will, through its audit assurance work, make recommendations or develop action plans (where appropriate) with managers to improve any material weaknesses in internal control.

9. A secondary purpose of internal audit is to provide an independent and objective consultancy service specifically to help line management improve the organisation's risk management, internal controls and governance.

Responsibilities of management and of internal audit

10. The Clerk of the House is the Accounting Officer for both Estimates. He is advised by the relevant Audit Committee and the Director General of Resources. The Clerk of the House is responsible for determining the scope of internal audit work, the programme of work and for deciding the action to be taken on the outcome of, or findings from, audit work.

11. The Accounting Officer is responsible for ensuring that the internal audit function has:

- The support of the Management Board (MB) in respect of the Administration Estimate.
- Direct access to senior managers, including any person nominated by the Accounting Officer to deal with urgent matters in his absence, the chairman and other members of the relevant Audit Committee or, in exceptional circumstances, the Speaker of the House of Commons via the Speaker's Secretary.

12. The members of the Management Board are responsible for maintaining a sound system of internal controls and the effective management of risk within their own areas of responsibility. Internal controls include the keeping of proper accounting records and other management information suitable for the day to day running of the House and the administration of Members' pay and allowances.

Responsibilities of management and of internal audit: Internal audit

13. The HIA is responsible for delivering the audit strategy and the annual internal audit programme as endorsed by the two Audit Committees.

14. IA will carry out its work in accordance with the standards and ethics published from time to time by the Institute of Internal Auditors (UK). It will also have regard to the Government Internal Audit Standard (GIAS) and relevant guidelines issued by HM Treasury.

Independence

15. Internal audit are **not** responsible for any of the activities which they audit. The internal audit team will not assume responsibility for the design, installation, operation or control of any procedures. Members of the internal audit function who have transferred into IAU from other areas of the House of Commons will not be asked to review any aspects of their previous department's or section's work until at least eighteen months has passed since they left that area. In exceptional circumstances the minimum period may be extended if the work carried out by the auditor in their previous post was of a strategic nature and is still relied upon for the effective operation of the area.

16. To avoid potential conflicts of interest the audit partner will not make executive decisions nor carry out any work where there may be or perceived to be a conflict of interest without first disclosing the reason and seeking clearance from the HIA.

Relationship with the Internal Audit Partner (external audit service provider)

17. The HIA will co-ordinate the work of the IAU with the work of the audit partner, to deliver audit services in accordance with the terms and conditions of the partnership agreement of October 2004 or as amended.

Relationship with the external auditors, other regulatory bodies and the House of Lords

18. Internal audit will co-ordinate their work with the external auditors (the National Audit Office) and others as directed by the Accounting Officer. Where possible a collaborative approach will be adopted to minimise the risk of internal and external audit staff working in the same or related areas.

19. Services which are provided to both Houses of Parliament (shared services) will be the subject of a joint internal audit programme constructed in consultation and agreement with the House of Lords Internal Auditor. The work of the House of Lords Internal Auditor on shared services will be disclosed to the AEAC and/or the MEAC as appropriate. The objective of closer working with the House of Lords Internal Auditor and the NAO is to reach a position where each of the three parties involved can rely on and take account of the work of the other two when providing assurance.

Accountability of the HIA

20. The HIA is responsible to the Accounting Officer for all internal audit matters including the quality of work performed, whether undertaken by in-house staff or the internal audit partner, for advice given and for the meeting of work objectives including delivery of the internal audit programme.

21. The HIA provides reports to the Audit Committees as set out in paragraph 34 below.

Appointment and removal of the HIA

22. The appointment or removal of the HIA is a decision to be made by the Accounting Officer. In this connection the Accounting Officer will be advised primarily by the Head of the OCE and collectively and independently by the members of the two Audit Committees.

23. The Audit Committees will be consulted on the qualities required in the HIA and the type of recruitment exercise required and their involvement in it, as and when the need for a new HIA arises.

Scope and authority of internal audit work

24. The scope of internal audit covers all systems and all activities in Departments of the House and elsewhere as directed by the Accounting Officer and agreed in the annual risk-based audit programme. The Accounting Officer may also invite Internal Audit to carry out specific reviews at his own request. Audit work is prioritised according to an assessment of risk, as judged by the HIA subject to the views of the Audit Committees.

Access to documents and property

25. Members of the IAU and the audit partner engaged on internal audit work are entitled to receive whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of the House of Commons, subject to the need to maintain the security of the House and its systems and to Data Protection Act considerations.

26. Access to other sources of assurance, such as local management reviews and consultancy reports, will be decided on an ad-hoc basis until a policy has been agreed by the Clerk of the House.

27. Any attempt to hinder or otherwise obstruct internal audit work shall be reported to the relevant Audit Committee.

Scope of internal audit

28. Internal audit work will normally include but is not restricted to:

- i. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information
- ii. Reviewing the soundness, adequacy and application of controls within existing systems and systems under development
- iii. Value for money studies which generally go further than normal audit and question the continued provision of the particular service in its present form with its present objectives and recommend other ways in which the service may be provided or how it might be curtailed

- iv. Reviewing the systems established by management to ensure compliance with relevant policies, plans, procedures, laws and regulations and determining whether the House of Commons is in compliance
- v. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets
- vi. Appraising the economy and efficiency with which resources are employed
- vii. Reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned
- viii. Following up recommendations to make sure effective actions have been taken

29. In respect of the audit work on the Members Estimate, Internal Audit reviews the administrative controls put in place by the Department of Resources over the processing of Members' salaries and allowances. Current access restrictions mean that internal audit cannot audit Members' personal records. Any questions of financial impropriety relating to Members' claims will be reported to the Clerk of the House, the Director General of Resources or his Director of Operations.

Planning and reporting

30. The HIA will submit the draft internal audit programme to the Audit Committee for consideration before the start of the new audit (financial) year. The plan will set out the programme of risk-based audits including anticipated timing, the recommended scope of work and the estimated resources required. The plan will show which audits will be conducted by in-house staff, which will be assigned to the audit partner, which will be done jointly by the audit partner and the IAU and, in respect of shared services, which will be done by the House of Lords.

31. The annual audit programme will be kept under review to reflect changing priorities and emerging risks. The programme will be flexible, containing an element of contingency to incorporate assignments which could not reasonably have been foreseen. Changes to the annual audit programme will be approved by the Accounting Officer and reported to the relevant Audit Committee.

32. The HIA will manage the agreed combined programme of work. The outcomes and findings will be delivered to the Audit Committees in the form of reports. All reports submitted to the audit committees and included in the agenda will be introduced by the HIA irrespective of which resource was used to undertake the review. The HIA will inform the Audit Committees of progress on the implementation of recommendations at least annually.

33. Draft audit reports will be issued to the relevant managers, audit sponsor, Head of the client Department and where appropriate for comment on the factual accuracy of the draft report and to provide a management response to the

recommendations or action plans contained in the draft report. It is the responsibility of the Head of the client Department or Departments to sign off the management response before it is returned to the IAU or the audit partner. Reports covering cross departmental issues on the Administration Estimate may require that the management response should be approved by the Management Board before being submitted to the AEAC.

34. The normal procedure is for final internal audit reports to be delivered to the relevant Audit Committee incorporating a management response. However, if a management response is not received within three months of the request for one, the report will be issued to the relevant Audit Committee without it. The report will then be considered by the relevant Audit Committee at its next meeting. Final reports as submitted to the relevant Audit Committee will be copied to line management. Supporting detail (IAU or the audit partner's working papers) will be available to the Accounting Officer, the relevant Audit Committee and to line management on request.

Finance

35. Each year a financial limit on the amount to be spent on reviews undertaken by the audit partner will be set by the Accounting Officer. It will be the HIA's responsibility to ensure that the limit is not exceeded. To ensure best value the work will be assigned to the audit partner in order of priority based on perceived risks. The Audit Committee will be informed if the whole programme cannot be delivered because of a lack of funds. It will then be for the Accounting Officer advised by the Audit Committee to decide what to do.

36. The audit partner's fee for each audit in which they are involved will be reported to the Audit Committees in the internal audit annual report.

Reporting progress against plan

37. The IAU will produce a monthly progress report for the Accounting Officer, the Audit Committees, members of the Management Board and other key stakeholders. The monthly report will provide information about the work done to date on active audits, which audit resource is responsible for its delivery and when it is expected to be delivered. In addition to the information about audits the monthly report will also show how internal audit staff have divided their time between core audit work and other activities and describe the main non audit activities undertaken by staff.

38. The IAU will produce a summary report of progress ahead of each Audit Committee meeting. The summary report will show all audits on the current programme of work, including any brought forward from the previous year. This report will be designed to show the progress from one Audit Committee meeting to the next and when completed audits were considered by the Audit Committee.

Annual Audit Report by the Director to the Audit Committees

39. The HIA will present an annual report of the internal audit service to the Accounting Officer, who will then make the report available to the Audit Committees. The report will contain a statement of assurance in respect of both Estimates and will

address other audit matters as required by the Accounting Officer and approved by the Audit Committees.