



SENATE
SÉNAT
CANADA

Study on the Fact-Finding Mission on Audit and Oversight Practices in the United Kingdom Parliament

Report of the Standing Committee on Audit and Oversight

The Honourable Marty Klyne, *Chair*
The Honourable Renée Dupuis, *Deputy Chair*
The Honourable David M. Wells, *Deputy Chair*

NOVEMBER 2023

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES
IN THE UNITED KINGDOM PARLIAMENT



SENATE | SÉNAT
CANADA

For more information please contact us:

by email: AOVS@sen.parl.gc.ca

by mail: The Standing Committee on Audit and Oversight

Senate, Ottawa, Ontario, Canada, K1A 0A4

This report can be downloaded at: www.sencanada.ca/en/committees/aovs/44-1

The Senate is on Twitter: @SenateCA,

follow the committee using the hashtag #AOVS

Ce rapport est également offert en français

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES
IN THE UNITED KINGDOM PARLIAMENT

TABLE OF CONTENTS

COMMITTEE MEMBERSHIP	4
ORDER OF REFERENCE	5
EXECUTIVE SUMMARY	6
INTRODUCTION.....	7
The United Kingdom Parliament.....	8
What We Heard.....	9
A. Discussion on Governance Structures.....	10
B. Independent Authority	11
C. Practices and Processes	11
Next Steps	15
APPENDIX A	16
Governance Arrangements for the United Kingdom Parliament	16
APPENDIX B	18

COMMITTEE MEMBERSHIP

The Honourable Marty Klyne, *Chair*

The Honourable Renée Dupuis, *Deputy Chair*

The Honourable David M. Wells, *Deputy Chair*

The Honourable Colin Deacon, Member

Hélène F. Fortin, External Member

Robert Plamondon, External Member

Other Senator who has participated in the study:

The Honourable Percy E. Downe

Research and Education, Library of Parliament:

Lindsay McGlashan, Analyst

Rosemonde Samedy, Analyst

Senate Committees Directorate:

Maxime Fortin, Committee Clerk

Stéphanie van Beek, Recording Secretary

Brigitte Martineau, Administrative Assistant

ORDER OF REFERENCE

Extract from the *Rules of the Senate*:

12-7. (4) The Standing Committee on Audit and Oversight, which, for the purposes of integrity, independence, transparency and accountability, shall be authorized, on its own initiative, to:

- (a) retain the services of and oversee the external auditors and internal auditors;
- (b) supervise the Senate's internal and external audits;
- (c) report to the Senate regarding the internal and external audits, including audit reports and other matters;
- (d) review the Senate Administration's action plans to ensure:
 - (i) that they adequately address the recommendations and findings arising from internal and external audits, and
 - (ii) that they are effectively implemented;
- (e) review the Senate's quarterly financial reports and the audited financial statements, for information purposes; and
- (f) report at least annually with observations and recommendations to the Senate.

EXECUTIVE SUMMARY

The Standing Committee on Audit and Oversight (the committee) has a mandate to provide oversight of the Senate's operations and expenditures. Since its creation in October 2020, the committee has considered the practices of audit and oversight bodies in other legislatures to learn from their models in establishing its own practices. In July 2023, a delegation of committee members met with the legislative audit and oversight bodies of the United Kingdom (U.K.) Parliament. This report summarizes what the committee learned from its U.K. counterparts, including matters related to best practices and key enablers.

The fact-finding mission involved meetings with members of the parliamentary audit committees, the Clerk of the Parliaments, the heads of internal audit and other key members of the administration from each house, as well as representatives from the Independent Parliamentary Standards Authority. These individuals were all candid and the committee considers these exchanges to have been invaluable at this stage of the committee's own work. In particular, the committee was interested to learn about how the U.K. Parliament's audit committees provide oversight of risk management, governance and internal controls.

Further, both houses have well established internal audit functions. As such, the committee was especially interested in their approach to preparing and approving a risk-based internal audit plan, as well as the factors for ensuring the acceptance and effectiveness of internal audit.

INTRODUCTION

The Standing Committee on Audit and Oversight (the committee) has a mandate to provide oversight of the Senate’s internal and external audits and related matters, following the principles of integrity, independence, transparency and accountability.¹ Created by the Senate in October 2020, the committee includes external members in its membership – a best practice for audit committees and an element that was recommended by the Office of the Auditor General of Canada following the 2015 audit of Senate expenses.² The committee has since considered ways to modernize the Senate’s audit and oversight practices, informed by leading models in other jurisdictions. In particular, the committee has considered the work of the United Kingdom (U.K.) Parliament’s audit and risk assurance committees and its independent authority responsible for overseeing the salaries and expenditures for members of parliament.

As part of its study, in July 2023, a delegation of the committee members undertook a fact-finding mission to meet with parliamentarians and senior officials from the U.K. Parliament. The timing of this mission was very opportune, as our Parliament was in summer recess, while the U.K.’s was still in session. In particular, they met with members of the House of Lords and the House of Commons audit committees, the Clerk of the Parliaments, the Head of Internal Audit for the House of Lords, and the Head of Internal Audit, the Head of Corporate Risk, the Head of Governance, the Clerk of Domestic Committees and the Governance Manager for the House of Commons, as well as representatives from the Independent Parliamentary Standards Authority (IPSA) – a member of the Board and the Chief Executive.

The U.K. Parliament’s audit committees were established about 20 years ago and IPSA has been in place for well over 10 years. As such, the committee members were interested in learning about the best practices and lessons learned of these audit and oversight bodies. The meetings with the U.K. counterparts allowed for a meaningful exchange of perspectives on how to encourage strong governance, effective audit and oversight practices and full accountability. This information was shared with the

¹ Senate, *Rules of the Senate of Canada*, July 2022, [Rule 12-7\(4\)](#).

² Standing Committee on Audit and Oversight [AOVS], [Annual Report of the Standing Committee on Audit and Oversight: Activities and Observations for Fiscal Year 2022-2023](#), Ninth report, June 20, 2023.

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES IN THE UNITED KINGDOM PARLIAMENT

full committee in short order. The committee considers the fact-finding mission to have been especially productive and insightful.

The U.K. Parliament’s audit and oversight bodies each conveyed a similar message to the committee: the importance of taking a collaborative and supportive approach when dealing with audit and oversight matters and management. Notably, they emphasized the importance of collaboration between all stakeholders with oversight responsibilities with a focus on adding value.

This report of the committee’s study on the U.K. Parliament’s audit and oversight bodies focuses on “what we heard.” The committee noted several aspects that reinforce the Senate’s current approach and others that could be considered further. The committee will continue to contemplate these practices in the context of the Senate’s governance structure and processes, as well as the relationships between those charged with governance and oversight and internal audit and Senate Administration management.

The United Kingdom Parliament

The U.K. Parliament comprises two chambers – the House of Lords and the House of Commons . Each chamber has its own governance structure and audit committees that oversee internal and external audit matters: the House of Lords Audit and Risk Assurance Committee, and the House of Commons Administration Estimate Audit and Risk Assurance Committee and House of Commons Members Estimate Audit Committee (the House of Commons audit committees).³ The audit committees include parliamentarians and external members in their membership and are chaired by an external member.

The salaries and business costs for members of the House of Commons are managed by IPSA, which is overseen by a Board that is appointed by the House of Commons Speaker’s Committee for IPSA (SCIPSA).

³ The activities of the United Kingdom [U.K.] House of Commons are funded under two public spending budgets (referred to as “estimates”) – the House of Commons Administration Estimate, which covers the staff of the House and its running costs, and the Members’ Estimates, which covers certain expenditures related to members. Accordingly, the House of Commons has two audit committees, one for each of its estimates, with the same membership and which meet at the same time, but that report separately in the respective annual accounts.

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES IN THE UNITED KINGDOM PARLIAMENT

In contrast, most Lords are not salaried and instead may claim an attendance allowance and certain business costs, a process which is overseen by the House of Lords.⁴

The U.K. House of Lords and House of Commons each publish several accountability reports, including an annual corporate business plan and a multi-year strategy as well as an annual report which includes performance and accountability information, financial statements and the audit committee's annual report. Similarly, IPSA publishes an annual business plan, a multi-year corporate plan, and an annual report and accounts. Information on their respective strategic objectives and priorities, key performance indicators and key risks are presented in those various reports. This is a best practice for ensuring transparency and accountability.

The U.K. Parliament's audit and oversight bodies have well-established mandates and have also undergone changes over time. For example, most recently, the House of Lords revised the terms of reference for the audit committee to "clarify its role in providing assurance ... around risk governance, and its role in scrutiny of practices, internal control mechanisms and governance process in 'encouraging value for money.'"⁵ The House of Commons made similar revisions to the terms of reference for the Administration Estimate Audit and Risk Assurance Committee, which has had "an enhanced role in providing independent assurance ... that the system of risk management is operating effectively and that risks are being effectively managed by the organisation and monitored by the [Commons Executive Board]" since April 2017.⁶

What We Heard

The committee members had very open and productive discussions with their counterparts on the extent of engagement, participation and effectiveness of the audit committees and the degree of accountability, leadership, ownership, precision, urgency and pride demonstrated by the Administration management and staff of each house. The respective audit committees follow similar approaches to one another and work collaboratively with Administration management. Likewise, the

⁴ U.K. Parliament, House of Lords, [Financial support for Members - briefing note](#).

⁵ U.K. Parliament, House of Lords, [Annual Report and Resource Accounts 2022-23](#), 20 July 2023.

⁶ U.K. Parliament, House of Commons, [Annual Report and Accounts 2022-23](#), 19 July 2023.

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES
IN THE UNITED KINGDOM PARLIAMENT

internal audit function is a key partner for management with regular engagement, communication and a consultative approach.

The discussions with IPSA were equally informative, and highlighted the importance of engagement and collaboration, education and communication, and a focus on meaningful performance metrics.

The committee noted several aspects related to the governance arrangements, processes and relationships that it will further consider in the context of its future work.

A. Discussion on Governance Structures

The U.K. House of Lords and House of Commons have similar governance structures, with clear roles and lines of accountability that are modeled on leading practices. Each house is governed by a Commission, chaired by the Speaker, and the management of day-to-day operations is delegated to senior officials on a management board, respectively the House of Lords Management Board and the Commons Executive Board, chaired by the clerk.

In the U.K. Parliament, the Clerk of the Parliaments and the Clerk of the House of Commons are responsible for the administration of their respective houses. The clerk is the accounting officer, and in this role, they are responsible for financial records and are advised by the audit committee and the head of internal audit regarding the adequacy of governance arrangements, risk management and internal control. The clerk is also the corporate officer, responsible under law for recording the decisions made by the house, and the employer of the Administration.

Other common aspects that contribute to the success of their governance arrangements and audit functions include a clear tone at the top through the clerk of each house (as head of the administration), emphasis on being a trusted partner, engagement and collegiality, a system of regular follow-up, and established risk management practices with oversight by the audit committee.

The committee heard from the heads of internal audit, for both the House of Lords and the House of Commons, a desire to focus more on strategic and value-added internal audit work, with a stronger link to strategic objectives and significant risks while ensuring that all the lines of defence are working efficiently.

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES
IN THE UNITED KINGDOM PARLIAMENT

B. Independent Authority

IPSA was set up rapidly and with a mandate to establish and oversee MP pay and business costs. It acts as a regulator and provides outreach and oversight. The chief executive of IPSA commented that although IPSA has independence in setting the rules for MP pay and business costs, it still engages its clients. He noted that IPSA has focused on increased engagement by working with MP office business managers and through regular MP staff group meetings and welfare/well-being group meetings. IPSA has a validation process for business cost claims with mostly manual checks (e.g., review of supporting invoices, review for duplicate claims) and some automated aspects (e.g., claims are rejected if there is no receipt in the system or if the claim exceeds published train fares).

IPSA has key performance indicators, or client service indicators, which are published annually. According to statute, IPSA has 90 days to reimburse business costs. However, its key performance indicator standard is eight days, and average service delivery is two days. IPSA also considers other indicators including the time to respond to phone calls, call duration as well as time to close email inquiries.

Looking ahead, IPSA continues to strive to improve its performance metrics and is considering ways to streamline MP procurement. A desire was also expressed to have the internal audit function provide more value-added information to management.

C. Practices and Processes

Audit Committees

The committee was especially interested in the work of the U.K. Parliament's audit committees and audit functions. The committee delegation met with members of the House of Lords and House of Commons audit committees. Many of the meeting discussions focused on their effectiveness in the context of the overall governance arrangements and key enablers for the success of the audit function. The committee members consider their exchanges on best practices and lessons learned to be insightful and invaluable, especially in the context of the committee's current focus of establishing an internal audit function for the Senate.

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES
IN THE UNITED KINGDOM PARLIAMENT

The House of Lords and House of Commons audit committees meet four times a year separately and then twice a year jointly on matters of shared interest. The U.K. Parliament's building restoration and renewal (R&R) program, which is similar to the Parliament of Canada's long-term vision and plan for the Parliamentary Precinct, was mentioned during several meetings as one of the most critical areas and a matter of joint interest for the two houses.⁷ The R&R program has a separate independent delivery service with its own audit function.

The House of Lords and House of Commons audit committees each approve a risk-based internal audit plan prepared by their respective head of internal audit. The audit committees also receive internal audit reports and management responses from the head of internal audit. As well, the audit committee gives the final approval for the clerks to sign off on their respective annual accounts.

The committee heard that key enablers for the success of audit are leadership, culture and formal processes. According to the Clerk of the Parliaments, the House of Lords has a cohesive board, and the tone is set from the top through the strategic plan and flows down through the approach to institutional risk management. He noted the importance of collegiality and a whole-of-organization approach with a culture of "equal" between clerks and non-clerks. He commented that the audit function is essential, including the work of the House of Lords Audit and Risk Assurance Committee, as is the full accountability of House of Lords management through the internal audit function and processes.

It was also noted that the House of Lords recently underwent an audit of governance matters. In January 2021, the House of Lords Commission published the results of an external management review focused on the House of Lords Administration, addressing matters of governance, leadership structures and people development.⁸ Among the recommendations, the external review proposed a change to the governance structure with the creation of a new oversight panel (to be chaired by the Senior Deputy Speaker and composed of the chairs of the Finance, Services and Audit Committees, the Clerk of the Parliaments, a newly created position of Chief Operating Officer, and other designated individuals).

⁷ U.K. Parliament, *Restoration and Renewal*.

⁸ U.K. Parliament, House of Lords, *House of Lords External Management Review*, 27 January 2021.

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES IN THE UNITED KINGDOM PARLIAMENT

With respect to their oversight of internal audit, the members of the House of Lords Audit and Risk Assurance Committee commented on the importance of taking collaborative approach when dealing with management. The members of the House of Commons audit committees shared similar comments concerning the relationship between the committee and management. The audit committees regularly receive a summary document on the internal audit work, make inquiries about management's risk framework and look at the remaining risks after mitigating measures. In practice, the audit committees focus on the quality and timescale of internal audit recommendations, and may question management about certain commitments and how they will achieve them.

The House of Lords Audit and Risk Assurance Committee members noted that they rely on the "three lines of defence" model and regard the audit committee as the final layer that provides comfort. They look at the internal audit results, which are based on a "traffic light" approach (red, amber, green). Another interesting discussion focused on performance metrics. The chair of the House of Commons audit committees noted that performance metrics are a starting point for a conversation with management.

The audit and risk assurance committees regularly review the risk register. The House of Lords Audit and Risk Assurance Committee considers whether management has identified and documented risks and mitigating measures are demonstrable and also considers residual risk (i.e., if an "amber" risk remains after mitigating measures). If any controls are not working, then the audit committee encourages management to look at those areas. The audit committee may also encourage risk deep dives, which provides an opportunity to identify issues.

Internal Audit

The committee delegation met with the heads of internal audit for the House of Lords and the House of Commons. The internal audit functions for the respective houses are operationally independent but follow a similar approach for regularly engaging management. The head of internal audit for each house reports directly to the Clerk and provides an annual statement of assurance on the overall adequacy and effectiveness of governance, risk management and internal control. In its discussions, the committee delegation heard about the value of the internal audit function and the importance of its role as a strong business partner. The committee heard that key enablers for the success of the internal audit function

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES IN THE UNITED KINGDOM PARLIAMENT

include engagement, collaboration and follow-up between internal audit and management. As well, a positive relationship between the audit committee and senior management within the administration was cited as an important factor in the acceptance of the internal audit function.

In terms of practices, the Head of Internal Audit for the House of Lords shared that as part of his internal audit responsibilities, he identifies risks or issues and makes recommendations. For each recommendation, management has three options for responding: (1) accept the recommendation; (2) modify the recommendation, with acceptance of the risk but with an alternate way to address the risk; or (3) reject the recommendation. The Head of Internal Audit noted that in management's response, he looks for a clear description and time scale. As well, there is a follow-up on all audits. The Head of Internal Audit also assesses the extent to which risks are being managed.

The House of Lords and the House of Commons each publish information on internal audit activities and the level of assurance obtained during the year in their annual reports. The majority of internal audits are generally focused on corporate areas and tend to be compliance based. One common element that emerged was a desire to pursue more strategic audits linked to activities that support the ultimate functions of the house and core risks. While control and compliance are essential functions, internal auditors can add value through informal consultations with management as well as through a fresh and rigorous look at other important institutional issues. In this way, internal audit can help management be forward looking and ready to adapt when new issues emerge.

Risk Management

The committee delegation also had meaningful exchanges regarding the U.K. House of Commons' approach to risk management and the importance of promoting a coordinated and harmonized approach to risk classification and rating. The committee heard about the value of strong engagement, collaboration and education to facilitate the risk management process. As well, discussions about consistency in the approach to the preparation and evaluation of risk management, the cohesiveness of risk data analysis and the advantages of risk management system were noted.

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES
IN THE UNITED KINGDOM PARLIAMENT

Next Steps

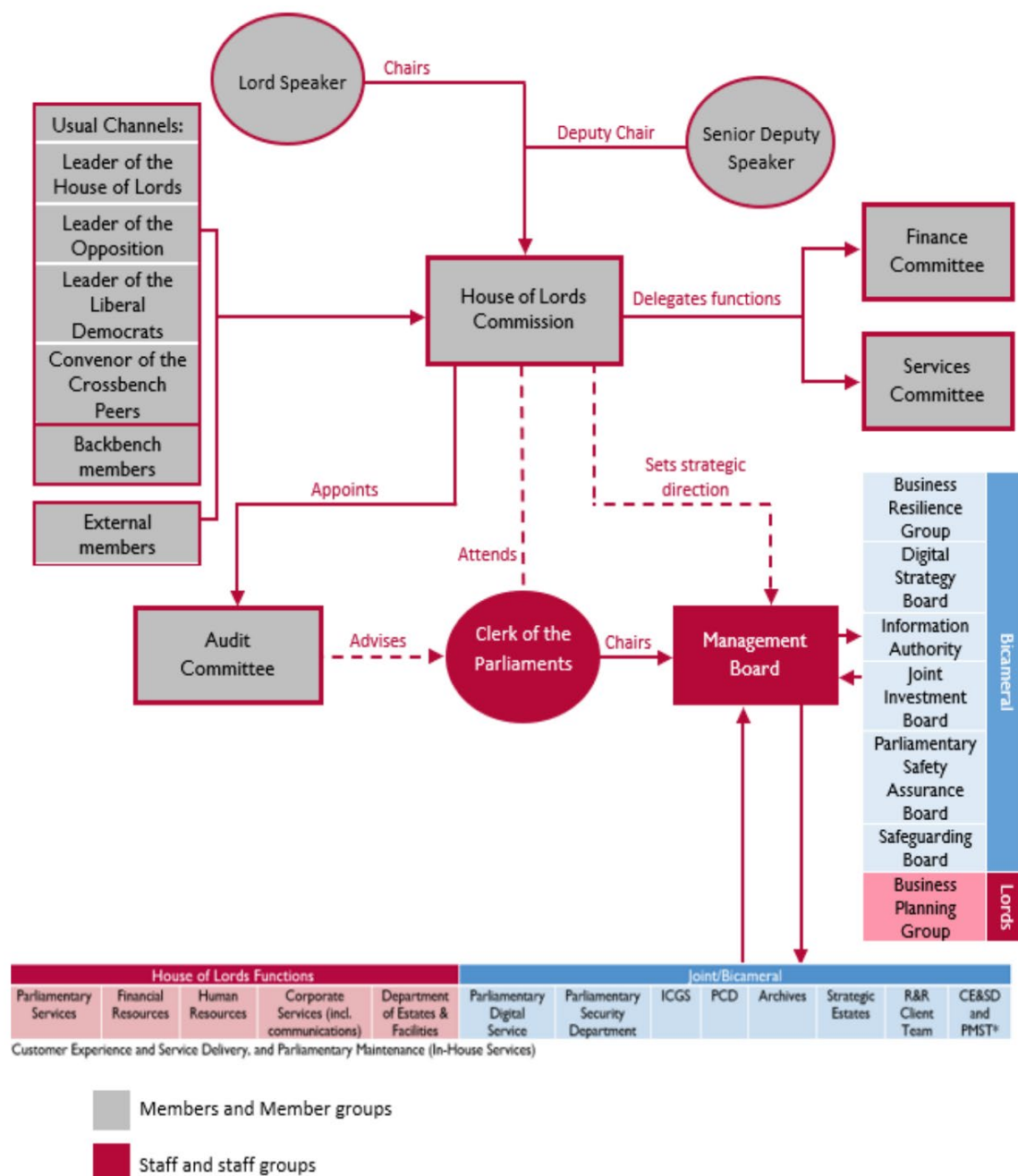
The modernization of the Senate's approach to internal audit, including the creation of a new Chief Audit Executive role and the Senate's first risk-based internal audit plan, is an important change for the institution and the Senate Administration.

The committee will continue to discuss its observations on the structure, processes and relationships observed in the U.K. audit and oversight bodies, with a focus on aspects that reinforce the Senate's current approach, that could be considered further, or which might inform future work of the committee.

APPENDIX A

Governance Arrangements for the United Kingdom Parliament

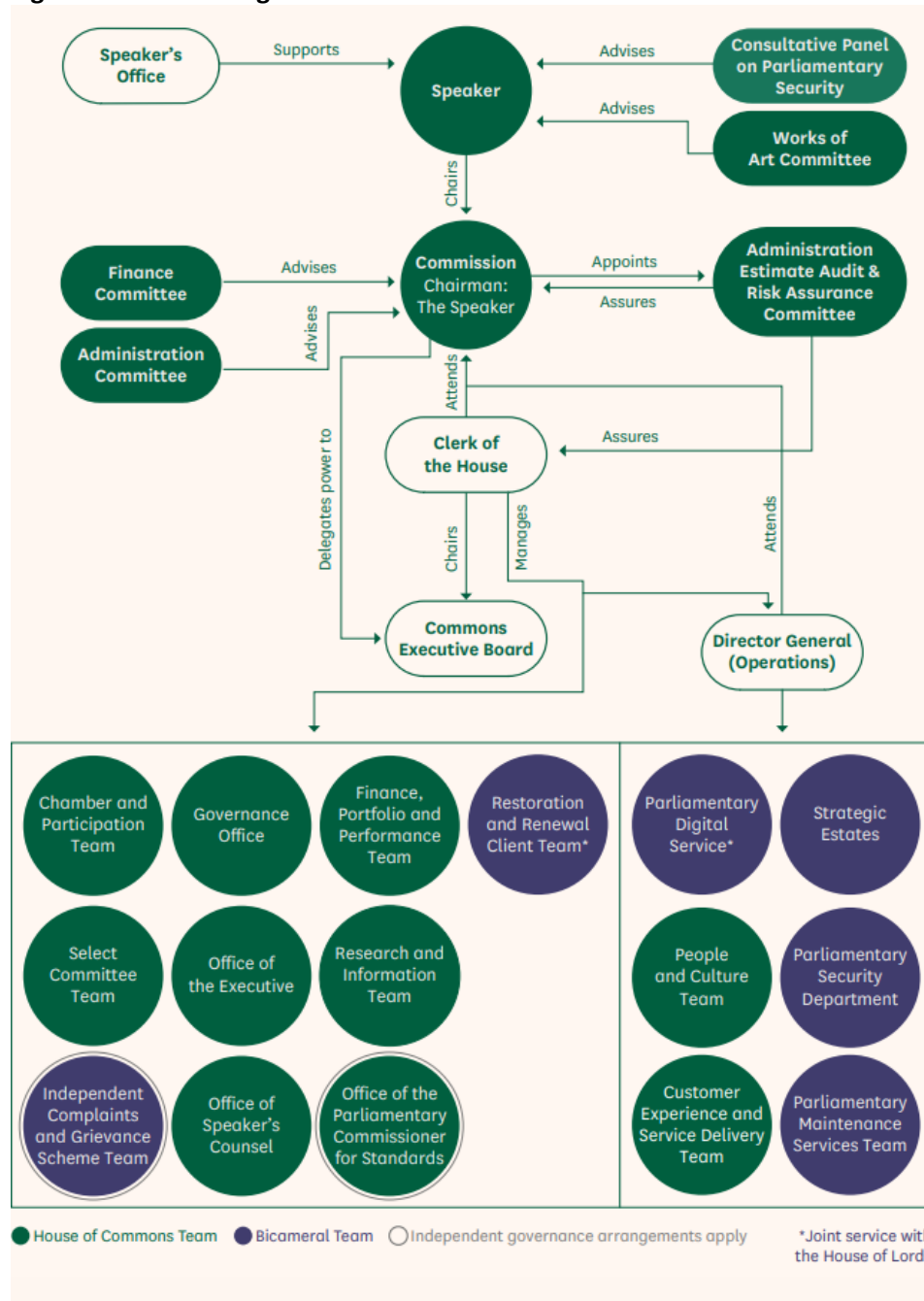
Figure 1 – United Kingdom House of Lords Governance Structure



Source: United Kingdom Parliament, House of Lords, *Annual Report and Resource Accounts 2022–23*, 20 July 2023, p. 6.

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES
IN THE UNITED KINGDOM PARLIAMENT

Figure 2 – United Kingdom House of Commons Governance Structure



Source: United Kingdom Parliament, House of Commons, *Annual Report and Accounts 2022–23*, 19 July 2023, p. 62.

APPENDIX B

The following members of the committee participated in the fact-finding mission to London, U.K.:

The Honourable Marty Klyne, *Chair*
The Honourable David M. Wells, *Deputy Chair*
Hélène F. Fortin, External Member

People met by the committee during the fact-finding mission (*in alphabetical order*):

1. Melanie Baker, International Relations Officer, Interparliamentary Relations Office, House of Commons
2. Lord Brownlow, Member, Audit and Risk Assurance Committee, House of Lords
3. Simon Burton, Clerk of the Parliaments, House of Lords
4. Lord Cromwell, Member, Audit and Risk Assurance Committee, House of Lords
5. Fiona Davidge, Head of Corporate Risk, House of Commons
6. Mathew Duncan, Chair, Audit and Risk Assurance Committee, House of Lords
7. The Honourable Ralph Goodale, High Commissioner for Canada in the U.K.
8. Lord Haskel, Member, Audit and Risk Assurance Committee, House of Lords
9. Shrinivas Honap, Chair, Administration Estimate Audit and Risk Assurance Committee, House of Commons
10. Will Lifford, Chair, Audit and Risk Assurance Committee, Independent Parliamentary Standards Authority
11. Lord MacPherson, Member, Audit and Risk Assurance Committee, House of Lords
12. Gosia McBride, Head of Governance, House of Commons
13. Lord Palmer, Member, Audit and Risk Assurance Committee, House of Lords
14. Žana Paul, Deputy Head of Interparliamentary Relations, Inter-Parliamentary Relations Office, House of Lord
15. Edward Potton, Clerk, Domestic Committees, House of Commons
16. Cynthujaa Satchi, Clerk, Audit and Risk Assurance Committee, House of Lords
17. Richard Stammers, Head of Internal Audit, House of Commons
18. Paul Thompson, Head of Audit, House of Lords
19. Ian Todd, Chief Executive and Accounting Officer, Independent Parliamentary Standards Authority

STUDY ON THE FACT-FINDING MISSION ON AUDIT AND OVERSIGHT PRACTICES
IN THE UNITED KINGDOM PARLIAMENT

20. Sir Charles Walker, MP, Member, Administration Estimate Audit and Risk Assurance Committee, House of Commons

21. Katherine Williams, Governance Manager, House of Commons



Imprimé par le service des impressions du Sénat /
Printed by Senate Printing Service

sencanada.ca    