

**BUILDING A COOPERATIVE ASSURANCE
RELATIONSHIP BETWEEN INTERNAL
AUDIT, DEPARTMENTAL GATEWAY
COORDINATORS AND
CENTRES OF EXCELLENCE**

April 2004



HM TREASURY





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internal audit, departmental gateway coordinators
and centres of excellence**

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INTRODUCTION

Treasury Assurance, Control and Risk and OGC [Gateway Programme Directorate] have been working together with a group of Internal Auditors and Departmental Gateway Coordinators to:

- Explore avenues for working together more collaboratively;
- Achieve a better understanding of roles and the departmental relationships of Internal Audit, Departmental Gateway Coordinators; and
- Understand the links to Programme & Project Management Centres of Excellence in departments.

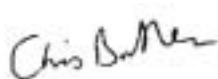
A series of Working Group meetings and a seminar, held in July 2003, have all been very effective in increasing awareness of roles and responsibilities, and have already started to provide a framework for greater cooperation. We have also consulted the Embedding Centres of Excellence team within OGC.

This report provides the background to the following recommendation:

“That at departmental level Heads of Internal Audit, Heads of Centres of Excellence and Departmental Gateway Coordinators collectively:

- *Consider the contribution each makes towards the framework of assurance required by the various stakeholders; and*
- *Explore possible areas for improved communication, consultation and provision of assurance”.*

A model framework [Annex 1] is provided to guide local discussion; this can be adopted or adapted as necessary to suit local needs.



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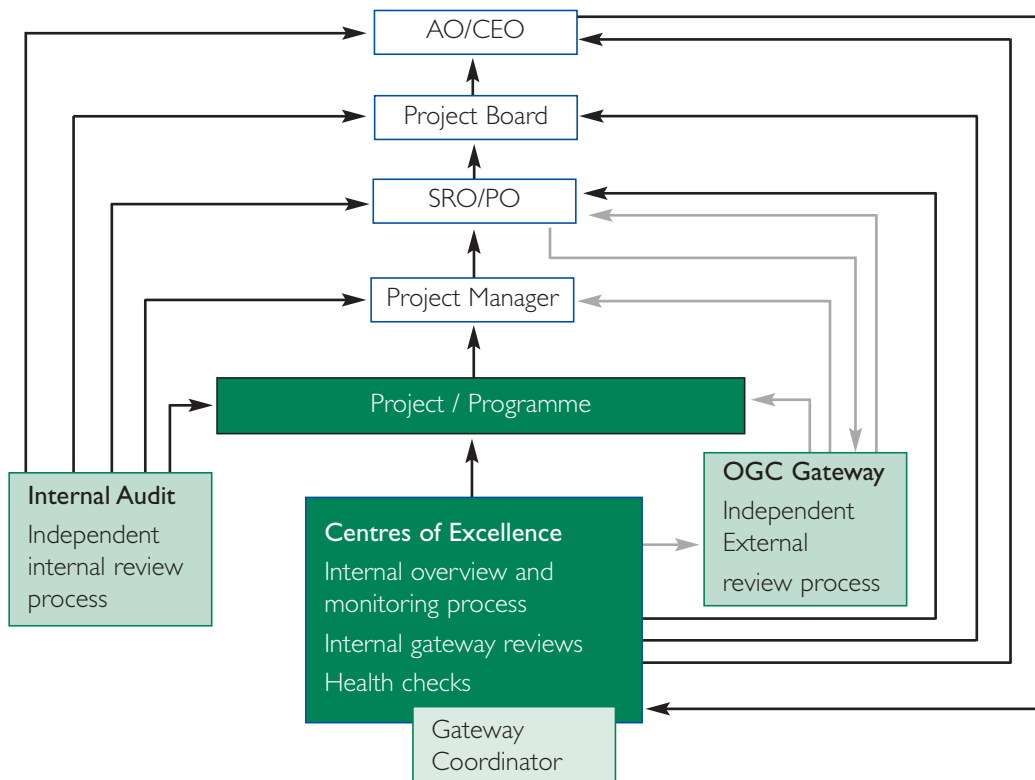
BUILDING A COOPERATIVE ASSURANCE RELATIONSHIP BETWEEN INTERNAL AUDIT, DEPARTMENTAL GATEWAY COORDINATORS AND CENTRES OF EXCELLENCE

Background/Drivers

- Programmes and projects can present the most risky work a department undertakes. Departments may have a large number of key programmes and projects that are stretching their resource and skills capability. Managing the portfolio effectively and minimising the risks involved can therefore be very challenging.
- The Office of Public Services Reform [OPSR] report “Improving Programme and Project Delivery [IPPD]” made a number of recommendations aimed at improving the delivery of departmental programmes/projects. A number of initiatives have recently been introduced with the aim of supporting that delivery process e.g. DAO (GEN) 07/04 Delivering success in government acquisition-based programmes & projects.

Issue

All programmes and projects should be subject to scrutiny of some form – whether by external Gateway Reviews, independent Internal Audit reviews or through internal review process. Assurance is provided by each review body independently to the various stakeholders based on the scope of their individual review activities. However it would seem sensible to ensure that there are processes in place for appropriate levels of co-ordination between review bodies e.g. Internal Audit, Centres of Excellence and Gateway Reviews in order to maximise the opportunities for gaining greater levels of assurance for stakeholders that closer cooperation could bring [See diagram below and Annex 1 Assurance].



Recommendation

Changes to the current organisational structures are not proposed. Each review body needs to retain autonomy within its own review domain but should explore opportunities for:

- Improved communication through information exchange e.g. in relation to findings, conclusions, common weaknesses etc;
- Greater consultation in relation to planning to ensure programmes and projects are not overloaded with reviews and demands for overlapping information; and
- Effective provision of assurance to meet the needs of the respective stakeholders¹.

The Working Group concluded that effective interactions between Internal Audit, Centres of Excellence and the Gateway Review process could lead to a range of benefits for all parties, and the clients they serve. Whilst the respective roles are different, there are similarities, and better networking/co-ordination could help to improve the successful delivery of departmental programmes and projects and may ultimately lead to greater levels of assurance.

The group therefore recommends that at departmental level Heads of Internal Audit; Heads of Centres of Excellence and Departmental Gateway Coordinators collectively:

- Consider the contribution each makes towards the framework of assurance required by the various stakeholders; and
- Explore possible areas for improved communication, consultation and provision of assurance.

Annex 1 provides a framework, developed by the central group, for those local discussions and provides a model, which may be adopted or adapted locally as necessary.

Annex 2 contains an overview of the roles and responsibilities of Internal Audit, Gateway Reviewers and Centres of Excellence.

¹Stakeholders in this context could relate to individual review sponsors [SRO; Project Managers etc] or to those at a strategic level [Accounting Officer, Management Board, Audit Committee, Programme/Project Board etc] or to Ministers or to the centre [HM Treasury; PMDU, OGC etc] See www.ogc.gov.uk/sdtoolkit/keyissues/getting/content/getting_started/stakeholders.htm for more information on stakeholders.

ANNEX 1

Framework for a Cooperative Assurance Relationship

The basis of working relationships and good practice guidelines for communication and consultation should be agreed locally between Centres of Excellence, the Gateway Departmental Coordinator and Internal Audit. This could include some or all of the following issues.

Strategic issues

- An understanding of the various levels of assurance available to stakeholders² in relation to the delivery of programmes and projects, and the benefits of a more managed approach to assurance possibly involving the Audit Committee³.
- An understanding of the role of Internal Audit; OCG Gateway Reviewers and Centres of Excellence. See Annex 2 for a brief outline of the roles.
- Recognition that the scope⁴ of Internal Audit's work encompasses the whole of the organisation's system of risk management, control and governance. As such IA has a protective obligation to the Accounting Officer to review all aspects of a department's work and to make recommendations even where this has previously been subject to the Gateway Review process or other internal reviews.
- Agreement on the role of internal auditors when working as part of the Gateway Review Team [see IA involvement].

Information Exchange

- Agreements on the policy of exchanging relevant information at an appropriate stage subject to internal confidentiality agreements [IA/OGC/COE].
- Agreement about the benefits of effective flows of information. Sharing information can avoid duplication of effort and enhance knowledge of the whole of risk management, control and governance for all parties. Similarly the identification of trends/weaknesses arising from previous local reviews [COE] and national Gateway Reviews can increase understanding.
- Agreement about what information could be exchanged and shared e.g. periodic sharing of plans, findings and reports [as appropriate] concerning reviews planned and undertaken.

²Stakeholders in this context could relate to individual review sponsors [SRO; Project Managers etc] or to those at a strategic level [Accounting Officer, Management Board, Audit Committee, Programme/Project Board etc] or to Ministers or to the centre [HM Treasury; PMDU, OGC etc] See www.ogc.gov.uk/sdtookit/keyissues/getting/content/getting_started/stakeholders.htm for more information on stakeholders

³Audit Committees are legitimate recipients of output from the various review processes. The HIA and possibly the COE, should be providing periodic updates to AC as part of the overall assurance framework that ACs should expect to be in place. See The Audit Committee Handbook published by HM Treasury www.hm-treasury.gov.uk The document is located under "Documents/Public Spending and Services/Audit, Accounting and Accountability"

⁴Government Internal Audit Standards [GIAS] – Scope of Internal Audit

Consultation

- Agreement on when consultation should take place between IA/COE/Gateway Coordinators. Where practical, review activities should be coordinated to ensure that programmes and projects are not overloaded with repetitive reviews and demands for overlapping information. Any existing programme of Gateway and other reviews should be considered when agreeing the audit programme with the AO/Audit Committee.
- Agreement on the level of consultation necessary at individual programme/project level. It is important that IA is consulted very early on in the Gateway process. There are potential advantages for all parties for the HIA, at the invitation of the Senior Responsible Owner (SRO), to be invited as a stakeholder to the Gateway facilitated planning meetings, which take place before the start of Gateway reviews⁵. HIAs should consult with the SRO on the benefits of IA involvement at this stage.
- Discussing and accessing some of the related IA audit work would help the Gateway Reviewers and others, to obtain a more rounded and objective view. Gateway Reviewers should interview HIA/Audit Managers where appropriate during the life of a project.
- Consultation at SRO level on the scope of additional review activities in relation to projects subject to Gateway Reviews in order to get best value from each separate review process. Gateway reviews are aimed at a strategic level; therefore there may be additional work that IA or COEs could do to ensure that management can be offered a well balanced/evidenced/supported assurance. For example:
 - Ensuring that the processes, put in place by departments to ensure that major or mission-critical projects are not based on any of the common causes of failure - as identified by the NAO and OGC, are adequate⁶;
 - The period between Gate 3 and 4 [the award of the contract and full development/implementation of the asset/service] could run to a significant period and be a critical time for the project development, additional review activities may be able add value at this stage; or
 - SRO may require further advice following a Gateway Review. This is an area where IA/COE could [depending on the priority based on an assessment of risk] provide advice on a consultancy basis.

⁵During the course of the programme/project stakeholders will be identified. A stakeholder is anyone who directly or indirectly receives the benefit, or sustains the costs, resulting from the implementation of a programme/project. www.ogc.gov.uk/sdtoolkit/keyissues/getting/content/getting_started/stakeholders.htm Stakeholders are invited to the Gateway facilitated planning meetings, which take place before the start of the Gateway Review.

⁶DAO [GEN] 07/04 refers

Assurance

- Each review body provides assurance independently to the various stakeholders based on the scope of their individual review activities. In order to provide effective management of key risks and to provide evidence to support the Statement of Internal Control (SIC) in the area of Programme and Project Management, there could be some value in reviewing the totality of assurance activity in this area.
- Consider the development of an Assurance Framework or Assurance Matrix for the organisations portfolio of Programmes and Projects. This requires management to map their assurance needs and identify the potential sources for providing them. Responsibility for gathering all the relevant assurance evidence together, arriving at informed conclusions and regularly reporting to the Management Board [possibly through the Audit Committee] would all need to be agreed if this route were to be followed.
- Educate SROs to be aware of the extent and limitations of the various review processes e.g. a Gateway Review is held before key decision points in the lifecycle of a procurement project to provide an assurance that the procurement can progress successfully to the next stage. The fact that a Gateway review has taken place is not sufficient for a full audit opinion on the effectiveness of risk management, control and governance in the audited area. However in providing an audit opinion on a project under development HIAs may wish to look to see to what assurance information is available from other review bodies [e.g. OGC Gateway and Centre of Excellence health checks] and determine the extent to which reliance can be placed on those other sources of assurance.

IA involvement as part of the Gateway Review team

Training and involvement in the Gateway process is a desirable development for IA staff however this will depend on the availability of resources. Properly trained IA staff could make a useful contribution to the Gateway Review, particularly in projects outside their home departments. This should help to spread good practice across departments and also provide skills development opportunities for IA staff. When IA staff are involved as part of the Review Team it should however be made clear to all stakeholders that they are not working in their professional capacity, in order to avoid situations where an audit opinion may be considered to have been gained simply by the presence of an auditor on the team. In all cases Internal Audit should make it clear that they reserve the right to review the same area of work.

ANNEX 2

Roles and Responsibilities

Internal Audit:

- As part of the audit strategy HIAs [in consultation with the AO and Audit Committee] will determine, on the basis of risk, which programmes/projects [or parts of programmes/projects] will be subject to internal audit review. Not all programmes/projects will be subject to IA review. In those cases where an IA review is felt to be appropriate, the internal auditor works with project owners and project boards at agreed stages of the programme/project to provide an independent assurance on the risk management, control and governance arrangements adopted for, and applied to, the particular project.
- On an annual basis the HIA provides an independent and objective opinion to the Accounting Officer on risk management, control and governance arrangements across the whole of the organisation. The audit strategy, approved by the Accounting Officer, determines how that opinion should be provided and periodic audit plans contain details of the audit assignments to be carried out in order to provide the annual audit opinion. Assurances relating to programme/project work undertaken during the year will be summarised into the annual audit opinion.
- In relation to individual audit assignments, internal audit seeks a “sponsor” to whom audit findings will be disclosed. This will normally be a senior manager with overall responsibility for the business risk area to be audited. In relation to programmes/projects this is likely to be the Senior Responsible Owner [SRO]. Internal Auditors review findings with the sponsor, making recommendations for dealing with any weaknesses. Assurances and audit opinions are also provided to that sponsor either at the end of the project or annually where a project spans more than one year.
- Internal Audit also undertakes “follow-up” assignments to review the effectiveness of management’s response to recommendations.
- Escalation procedures, to Audit Committee/Accounting Officer, are in place to deal with inadequate management responses. Where follow-up reveals that a change in the audit opinion is required, this change is reported to the “sponsor”.

[Further information on Internal Audit [Standards and Good Practice] can be found at www.hm-treasury.gsi.gov.uk]

OGC Gateway Review:

- The Gateway process is a pre-defined independent review of a procurement project carried out by experienced personnel at critical stages in its lifecycle [before key decision points] to provide assurance that it can progress successfully to the next stage. The process comprises a repeatable Gate 0 review for acquisition programmes and a series of 5 reviews for procurement projects, these are:

- Gate 1 – Business Justification - after the Business case has been prepared;
 - Gate 2 – Procurement Strategy - after the procurement strategy has been defined;
 - Gate 3 – Investment Decision - after tenders have been evaluated and refined;
 - Gate 4 – Readiness for Service - after contracts have been awarded;
 - Gate 5 – Benefits Evaluation - after contract implementation.
- The review is an intense assessment of the key issues. The end result is a report for the SRO of the project which may contain a list of issues to be addressed together with recommendations. SROs own the Gateway Review report and are responsible for its distribution. Actions are categorised as RED (remedial action immediately), AMBER (action required before next Gate) and GREEN (general improvements). A Gateway review will not be carried out unless there is a designated SRO for the project. Gateway is a mandatory process for acquisition programmes and procurement projects. Departments can choose to tailor the process for non-acquisition programmes and projects.
 - The Risk Potential Assessment [RPA] will determine from where a Gateway team is drawn. Departments contribute Gateway reviewers to OGC's pool from which Gateway teams are created. For high risk projects the team is made up of people from OGC's pool (but excluding anybody from the department under review), the team leader has to be a senior practitioner with at least 15 years relevant experience. For medium risk projects the team leader (Grade 5/6 – with 10 years relevant experience) is provided by OGC but team members can be departmental people. Low risk projects are managed by the department and the team leader and team members are departmental personnel. OGC rely on departmental Gateway Coordinators to coordinate reviews and to identify potential members for the OGC pool.
 - The Gateway Report is short and succinct (5 – 10 pages). It is a confidential report to the SRO. It is discussed with the SRO and all actions agreed before the Gateway team departs.

Further information on Gateway Reviews can be found on www.ogc.gov.uk

Centres of Excellence:

- Centres of Excellence bring together a set of essential functions to support the successful delivery of departmental programmes and projects, providing a continuous overview across the department's entire portfolio of programmes and projects, including those delivered by Agencies and NDPBs. A COE is a focal point for supporting the department's individual programmes and projects, and for driving the implementation of improvements to increase the department's capability and capacity in programme and project delivery.
- Specific review responsibilities of COEs are:
 - Scrutinising and challenging the programmes/projects within the departmental; portfolio to assess alignment with PSA targets and/or corporate objectives;
 - Reviewing and reporting progress on Mission Critical programmes/projects;
 - Assessing organisational capability/capacity to deliver the portfolio;

- Assessing programme and project management skills and capability at an individual or programme/project level;
- Reviewing the embedding of programme/project/procurement best practice within the organisation.

Further information on Centres of Excellence can be found on www.ogc.gov.uk

Considerations

- A great deal of common ground is covered through all three review and monitoring processes. Whilst this can be of great benefit to the department concerned there is potential for duplication of effort, potentially a lack of clarity for Senior Responsible Owners and Programme/Project Managers of the respective roles, and also scope for the provision of conflicting assurances to respective levels of management and the management board. This is particularly evident in relation to Internal Audit and Gateway Reviews.
- It is accepted practice that OGC Gateway Reviews should be undertaken on all appropriate projects within a department, its Executive Agencies and NDPBs. To ensure that management obtain best value from the OGC Gateway process, Internal Audit activities and/or other review activities it is important that management:
 - Are clear about the objectives of each type of review;
 - Obtain the best value from the combination of advice and support provided by the review bodies;
 - Obtain the benefits of the combined skills and experience brought to the reviews from each discipline; and
 - Are clear about the role of the internal auditor when involved as a member of a Gateway Review Team.