Introduction

1. This is the thirteenth annual report of the House of Commons Administration Estimate Audit Committee (AEAC), which was established by the House of Commons Commission on 15 May 2000.

2. This report outlines the AEAC’s conclusions in relation to the Administration Estimate for the financial year 2012/13. The Committee’s findings are set out by reference to the key areas on which it is required to provide assurance to the Accounting Officer under its terms of reference.

3. Details of the AEAC’s terms of reference, membership and activity during the year are provided in the Appendix to this report.

Conclusion for the financial year 2012/13

The effectiveness of the system of governance, risk management and internal control (the “system of internal control”)

Main Conclusion

4. We are pleased to note that a wide range of improvements have been delivered across the House Service since our last report. However, whilst these are welcome they are not enough, in scope or pace, to meet the aspirations of senior management. Further improvements will need to be made if the House Service is to have as effective a system of internal control as would be expected of a world class Parliament. This situation is reflected in the Director of Internal Audit’s overall opinion on the House’s framework of governance, risk management and control for 2012/13 which remains at a “Moderate” level of assurance, a view with which we concur.

5. Creating a robust system of internal controls is an essential part of making the House Service efficient and effective. It therefore directly supports the achievement of the House of Commons Strategy and should be a priority for management. Achieving this will require the current speed of change to be increased. It will also necessitate a cultural shift in the organisation, with senior leaders empowering their managers, and those managers in turn exercising their responsibility to ensure that their services, systems and processes are efficient and effective. We recommend that management accelerate its drive to improve the House Service’s operation of its systems of internal control. Managers need to actively manage the service areas for which they are responsible, ensuring that poor performance and inefficiency are not tolerated and that good value for money is prioritised and achieved. Such an effort is essential if the House Service is to achieve the level of performance that can be supported by a “Substantial” level of assurance in 2013/14.

Supporting evidence

6. Substantial progress has been made in improving the House’s financial management due in a large part to the improvement programme that the Director of Finance instigated and which is now nearing completion. There are, however, still some areas in need of further improvement notably financial forecasting and the House’s accounting system - HAIS.

7. Whilst notable improvements have been made in both procurement and contract management as part of the relevant improvement plan, we are aware of problems with a number of procurement exercises which have made this a continuing area of concern. Resolving this issue is not solely a matter for the Department of Finance. It will require managers in all departments, who are responsible for procuring goods and managing contracts, to both comply with procedures and focus on achieving value for money.

8. In particular, the management of the Special Service Agreement with the Metropolitan Police Service has been a recurring subject at our joint meetings with the House of Lords Audit Committee. This is an area where we expect to see further improvements in 2013/14. We also believe that there are substantial opportunities for further efficiencies through improved joint working with the House of Lords and PICT both in procurement and other business areas.

9. Good progress has been made in putting in place a more consistent and appropriate risk management system. The system includes standard risk register formats, which have been adopted and utilised across the House Service. However, while the system itself is well designed we are concerned about the degree to which it is used by the organisation to improve the actual management of risks. The House needs to ensure that the system is working properly and is used to manage, as well as simply report on, the risks that the organisation carries.

10. As management has recognised, improving the capability and capacity of staff in the House Service, particularly those in a leadership or management role, is a key challenge. A number of audits this year led us to conclude that some of the problems stem from a lack of emphasis among some senior and middle ranking staff on their roles as managers. Addressing this requires an HR
function with the capacity to develop managers and provide them with the support and tools necessary. We note that a number of actions are planned in 2013/14 to address staff and management capability. Successfully implementing these actions will be particularly important given the number of workforce change initiatives that are currently underway and we recommend that this area of work is prioritised.

11. Further steps are needed to improve the quality of management information that forms the basis of decision-making in the House Service. An internal audit report highlighted a number of weaknesses in the current suite of performance information used by the Management Board and we are content that an appropriate plan of action is in hand to address the issues raised. A few audits have also identified a number of errors arising from the quality of HR data entered into the House’s systems, and this had an impact on the NAO’s approach to their external audit. We are keen to see this matter addressed early in 2013/14 and will be monitoring the situation.

12. Overall, we are satisfied that action is being taken to address agreed actions from the audits we have considered during the year. However managers need to move beyond identifying and resolving individual problems within their service area and instead create, own and deliver a vision of what “good” looks like in their part of the organisation. Many of our main conclusions from last year remain valid and we believe that there continues to be a number of opportunities to improve controls, efficiency, effectiveness and value for money. We recommend that further efforts be made to ensure staff at all levels are focused on continuous improvement to the House’s operations and ways of working.

The integrity of the annual Resource Accounts
13. We have reviewed the annual Resource Accounts. We note that the planned merger of the House of Commons staff pension scheme into the Civil Service Scheme should largely eliminate the volatility of costs associated with the scheme and that this change is due to be implemented early in financial year 2014-15.

14. We consider the Accounts acceptable for signature by the Accounting Officer. We are satisfied with the Annual Governance Statement and the process undertaken to produce it.

The work of the internal audit service
15. We note that Internal Audit (IA) largely completed its audit plan during the period, meeting its target. During the course of this year IA were subject to an External Quality Assessment review conducted by a team from Deloitte that is independent from the co-sourcing agreement. The review highlighted a number of strengths as well as identifying some areas for improvement and development. We intend to work with the Director of IA to address the review’s findings.

16. We note that the relationship between IA and Deloitte (IA’s strategic partner) continues to work well, with Deloitte, in general, providing specialist knowledge in specific areas rather than taking on entire audits.

17. We also welcome the continued close cooperation by Internal Audit with its colleagues in the House of Lords.

18. Overall we are satisfied that the scope and nature of the work of Internal Audit, supported by its partnership with Deloitte, and in parallel with the work of the NAO as the external auditors, adequately underpins the assessment of the Accounting Officer of the system of internal control.

The external audit by the external auditor
19. We are satisfied with the scope and nature of the work of the NAO and believe that the NAO has carried out its external audit work with due independence.

20. We are satisfied that the audit opinion was appropriate.

Other matters as were referred to the Committee by either the Accounting Officer or the Commission
21. No additional matters were referred to the Committee by the Accounting Officer or the Commission in 2012/13.
APPENDIX

Terms of reference

1. The Committee has the following terms of reference, which are approved by the House of Commons Commission (the last changes were agreed in July 2012):

REMIT

The Administration Estimate Audit Committee pursues its objectives and fulfils its responsibilities on behalf of the Commission and, as it deems appropriate, shall draw any matters arising within these terms of reference to the attention of the Commission.

MEMBERSHIP

The membership of the Committee shall be:

- 3 MP members, including:
  - A Member of the House of Commons Commission
  - A Member of the Finance & Services Committee
- 3 External Members, appointed by the Commission

The Chairman shall be appointed by the Commission from amongst the members of the Committee.

OBJECTIVES

The Audit Committee has been established to support the Accounting Officer in discharging his responsibilities under the Administration Estimate, particularly with regard to the maintenance of an effective system of internal control. The Committee’s objective is to give assurance to the Accounting Officer on:

- The level and range of assurances on the management of risks
- The adequacy and implementation of proposed management actions to improve the effectiveness of internal controls

Annual Resource Accounts

The Committee is responsible for reviewing the annual Resource Accounts before their submission to the Accounting Officer. This review to include:

- any significant changes in the accounting policies or treatments
- major financial reporting judgements or estimates
- consistency of the Annual Governance Statement
- resolution of any matters raised by the external auditor
- significant adjustments resulting from the audit by the external auditor

Internal Audit

The Committee is responsible for monitoring the work of the internal audit service. This includes:

- Involvement in the appointment of the Director of Internal Audit and the audit partner
- Agreement to the annual internal audit plan and monitoring of progress
- Consideration of the results and findings from internal audit work and the adequacy of management responses
- Consideration of the Director of Internal Audit’s annual report and opinion

External Audit

The Committee is responsible for monitoring and reviewing the work of the external audit. This review to include:

- Recommendations on the appointment and scope of work of the external auditor
- Consideration of the external audit strategy
- The results of the external audit work, including any reports to those charged with responsibilities for governance, and the adequacy of management responses
- Representations made by management to the external auditor
- Annual review of the external auditor’s independence and effectiveness

RESPONSIBILITIES

Governance, Risk Management and Internal Control

The Committee is responsible for monitoring governance, risk management and internal control (“the system of internal control”). This monitoring will include:

- The development and operation of the system of risk management, in accordance with the overall risk management policy
Membership

2. The Committee is chaired by an external member, Alex Jablonowski, who is also an external member of the House of Commons Management Board. Barbara Scott and Stephen Brooker are the other two external members of the Committee. Barbara Scott replaced Mark Clarke as an external member of the Committee in January 2013.

3. The current MP members of the Committee are: Ms Angela Eagle MP, Rt Hon Sir Alan Haselhurst MP, and John Thurso MP.

4. The membership of the Members Estimate Audit Committee also reflects these changes.

5. The Clerk of the House, the Director of Finance and the Director of Internal Audit also attend the Committee's meetings. All three officials may withdraw for specific items at the Committee's, or their own, request.

6. The Committee's Secretary is the Private Secretary to the Clerk of the House. The Committee is also supported by a Committee Assistant.

Meetings

7. The Committee met formally five times in the financial year 2012/13: on 13 June, 4 and 11 July, 24 October 2012 and 23 January 2013. Attendance is shown in the table below.

<table>
<thead>
<tr>
<th>Member</th>
<th>Total number of meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alex Jablonowski (Chair)</td>
<td>5/5</td>
</tr>
<tr>
<td>Ms Angela Eagle MP</td>
<td>0/5</td>
</tr>
<tr>
<td>Rt Hon Sir Alan Haselhurst MP</td>
<td>5/5</td>
</tr>
<tr>
<td>John Thurso MP</td>
<td>4/5</td>
</tr>
<tr>
<td>Stephen Brooker</td>
<td>5/5</td>
</tr>
<tr>
<td>Mark Clarke</td>
<td>4/4</td>
</tr>
<tr>
<td>Barbara Scott</td>
<td>1/1</td>
</tr>
</tbody>
</table>

8. In addition it held an informal meeting to review its effectiveness on 7 November 2012, which all Members attended.

9. The external members of the Committee held informal meetings with the House's finance team and the NAO to discuss the draft House of Commons Administration Estimate accounts on 20 June 2013. The external members also met once at the request of the Finance and Service Committee to review the business case and other documentation relating to the market testing strand of the Savings Programme.

10. The Committee had two meetings in the current financial year before this report was agreed, on 17 April and 3 July 2013.

Internal Audit and partnership

11. The Committee routinely receives an oral report at its meetings from the Director of the Internal Audit (IA), together with a paper showing progress against the annual work programme and the balance between core audit and the other work undertaken by IA.

12. There was one change of staff in IA during 2012/13, with the recruitment of a Senior Auditor to fill a vacancy. At the end of the year a minor restructuring was undertaken on the departure of a member of the team to create a new trainee post, this post is due to be filled from September 2013.

13. One member of staff continued his professional studies with the Chartered Institute of Internal Auditors. All qualified staff maintained their continuing professional development in the year.

14. During 2012/13 Deloitte continued its role as IA's strategic partner under the terms of the current contract that has been extended until September 2014. Deloitte assisted in six audits during the year, as well as supporting the team with access to resources and information. Due to the specialist skills required, it supported an audit on pension administration and an assignment on the finance control environment, as well as the ICT specific audits.

Internal audits considered by the Committee

15. During 2012/13 the Committee was notified of 23 audits relating to the Administration Estimate, including 13 audits from the 2011/12. Audit reports are usually considered first by the external members of the Committee, who may choose to bring matters to the attention of the full Committee.

16. Audits discussed by the Committee dealt with a wide range of topics, covering:
   a. Core audit issues such as financial management, counter-fraud procurement and contract management,
   b. Corporate issues, such as risk management, learning and development, legal compliance, the annual assurance process, and
   c. Services provided by the House Service.

The Committee also followed-up implementation of agreed management actions arising from audits and on two occasions invited the Head of a Department to attend a meeting to explain the delays in implementing agreed actions in their area.
17. IA also undertakes follow up reviews when an audit has been issued for six months and contains major findings and agreed actions. The Committee received a number of follow-up audits including regular progress updates from monthly tracking by Internal Audit.

18. Further information on specific audits is included in the minutes of the Committee’s meetings which are available on the Committee’s website.

Risk Management

19. The Committee continued to fulfil its responsibility to monitor the development and operation of the system of risk management, in accordance with the overall risk management policy, and the level and range of assurances on the management of risks.

20. Over the last year it met with the Corporate Risk Management Team to discuss the House Service’s system of risk management. The Committee also met with the Director of Service Delivery in the Department of Information Services to discuss risk in his areas of the business. Risk management was also discussed at one of the joint meetings with the Lords Audit Committee.

Internal audit charter

21. The Internal Audit service works to the Public Sector Internal Audit Standards professional framework. The House’s internal audit charter, setting out the purpose, role, responsibility, status and authority of internal auditing within the House of Commons and outlining the scope of internal audit work, was formally reviewed by the Committee in April 2013.

Planning of the audit programme

22. The Committee agreed the final Internal Audit programme for 2012/13 in June 2012 subject to discretionary time being used for specific audits in Human Resources. The Committee agreed proposed changes to the plan in October 2012 and January 2013.

23. The proposed approach to the Internal Audit programme for 2013/14 was considered by the Committee at its April 2013 meeting.

External Auditors

24. The National Audit Office (NAO) has continued to provide an external audit function for the House of Commons. NAO staff routinely attend meetings of the Committee and receive all of its papers and minutes, although the Committee continues from time to time to discuss certain items of business without auditors present.

25. In January 2013 the Committee discussed the NAO’s planned approach to auditing the House of Commons Resource Accounts 2012/13. The NAO raised three significant risks: the Accommodation Strategy; the accounting treatment of the contract to provide a managed service for wired and wireless data networks, and the upgrade of the Houses’ accounting system, HAIS. It also identified a number of risk factors: the revaluation of the Parliamentary Estate; charging of costs for shared services with the House of Lords; and the valuation of heritage assets.

26. The external members of the Committee met with the NAO and Finance staff on 20 June 2013 to discuss the draft House of Commons: Administration Estimate accounts for 2012/13. Following this the accounts were discussed by the full Committee on 3 July 2013 prior to being signed off by the Clerk of the House, as Accounting Officer.

House of Lords Audit Committee

27. The Committee held joint meetings with the House of Lords Audit Committee in July 2012 and January 2013. The main items considered were the Metropolitan Police Special Service Agreement and joint working between the two Houses on procurement and counter-fraud. The Committee also continues to share agendas and minutes with the House of Lords Audit Committee.

Members Estimate Audit Committee

28. A Members Estimate Audit Committee was established by the House’s Members Estimate Committee on 14 June 2004. It has the same membership as the Administration Estimate Audit Committee and usually meets immediately after meetings of the AEAC. The annual report of the Members Estimate Audit Committee will be published with the House of Commons: Members Estimate Accounts 2012/13.

Further information about the Committee

29. The AEAC publishes annual reports and certain papers (agendas, minutes and actions arising) on its page on the parliamentary website http://www.parliament.uk/business/committees/committees-a-z/other-committees/administration-estimate-audit.