Administration Estimate Audit Committee Annual Report 2010/11

Introduction

1. This is the eleventh 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 2010/11. The Committee’s findings are set out by 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 membership and activity during the year are provided in the Appendix to this report. In November 2010 the Committee agreed to seek the House of Commons Commission’s approval to update and expand its terms of reference. The revised terms of reference approved by the Commission are also included in the Appendix.

Conclusion for the financial year 2010/11

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

4. We note that the Director of Internal Audit has given a moderate level of assurance that the House’s framework of governance, risk management and control is effective and is improving. He also noted developments following audits in corporate systems of business planning, financial, performance and risk management and that there has been recognition of the need to address weaknesses in procurement and contract management. We concur with this opinion and recommend that management should now seek to embed further improvements so that it can achieve a substantial level of assurance in future.

5. The Internal Audit on Financial Management highlighted the need for improvements in budget-setting, financial reporting, forecasting and investment appraisal. The Committee welcomes the appointment of a Finance Director and creation of a new Finance Department. The new Finance Director has made a good start in addressing the audit’s recommendations, and we hope to be able to see significant further progress over the coming year.

6. The Committee considers that risk management is not sufficiently embedded within the House Service. We recommend that the pace of change should be increased and that the initial focus should be on ensuring that risk assessments and mitigating actions are suitably recorded on a common basis across the organisation. The Board has now committed to giving the corporate risk management team a stronger mandate to direct risk management practice across departments, an important step which we support.

7. The Director of Internal Audit continues to report significant shortcomings in procurement practice in the House. Management controls over contract management need to improve further to ensure the risks of poor value-for-money or external challenge do not crystallise.

8. The speed of implementation of management actions following audit reports has been variable and approximately a third have been delayed. In our experience, this is unusually high (see “The work of the Internal Audit service” below). However, overall the Committee is satisfied that action is being taken to address recommendations in the audits it has considered during the year.

The integrity of the annual Resource Accounts

9. We have reviewed the annual Resource Accounts. We recommend that additional work is carried out to improve the clarity of the narrative on pensions reporting in future accounts, but consider the Accounts acceptable for signature by the Accounting Officer.

10. We are satisfied with the Statement on Internal Control and that issues raised by the NAO have been resolved.

The work of the Internal Audit service

11. The Committee notes that Internal Audit (IA) achieved its audit plan in all material respects. There was some slippage, in part due to delays in management responses to audits. We recommend that management should improve the speed of response – there should normally be no more than six weeks from an initial exit meeting to issue of an agreed final report. We hope that in future, once the risk management system is more fully embedded, IA will be able to plan and scope its work on a basis which reflects the House’s underlying risks more closely.
12. The Committee has welcomed the efforts of IA to increase the value it adds to the House Service over the financial year. Increased focus on Value-for-Money reviews will be particularly important as the House proceeds with the second phase of its Savings Programme.

13. The Committee notes that a strong working relationship has now developed between IA and Deloitte (IA’s strategic partner), with good co-ordination of work. A sensible approach has been adopted whereby Deloitte are, in general, asked to provide specialist knowledge in specific areas rather than taking on entire audits.

14. The Committee also welcomes the continued close cooperation by Internal Audit with its colleagues in the House of Lords Service.

15. 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.

16. The Committee is satisfied with the scope and nature of the work of the NAO and believes that the NAO has carried out its external audit work with due independence.

17. 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

18. No additional matters were referred to the Committee by the Accounting Officer or the Commission in 2010–11.

APPENDIX

Terms of reference

1. In November 2010 the Committee agreed to seek the House of Commons Commission’s approval to update and expand its terms of reference. The House of Commons Commission approved the following revised terms of reference for the Committee on 13 December 2010:

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 effectiveness of the system of governance, risk management and internal control (referred to collectively as the "system of internal control")
- The integrity of the annual Resource Accounts
- The work of the internal audit service
- The external audit by the external auditor
- Other matters as may be referred to it by either the Accounting Officer or the Commission

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 effectiveness of the design and operation of the system of internal control
- The development and operation of the system of risk management, in accordance with the overall risk management policy
- 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 Statement on Internal Control
- 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

Membership
2. Alex Jablo nowski has been Chair of the Committee since June 2010, when he took over the chairmanship in line with a recommendation by the 2007 Tebbit Review of the Management and Services of the House of Commons that the Committee should be chaired by an external member. The previous chair was Rt Hon Sir George Young MP.

3. The current MP members of the Committee are: Rt Hon Sir Alan Haselhurst MP, Rt Hon Hilary Benn MP, and John Thurso MP. They replaced Mr Clive Betts MP, Ms Rosie Winterton MP and Mr Nick Harvey MP who served on the Committee until October 2010.

4. The other two external members of the Committee are: Mark Clarke and Stephen Brooker (who replaced longstanding member David Taylor in July 2010). Stephen Brooker was appointed by the House of Commons Commission, following a process of open competition, in April 2009 to take up his position when David Taylor’s contract expired.

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

6. From 1 April 2011 the House’s Department of Resources was replaced by a Department of Finance and a Department of Human Resources and Change, and the new Director of Finance now attends Committee meetings instead of the former Director General of Resources. The Clerk of the House 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.

7. The Committee’s secretary is the Private Secretary to the Clerk of the House, Gosia McBride, who replaced Hannah Weston in December 2010. The Committee also has a part-time Committee Assistant.

Meetings
8. The Committee met four times in the financial year 2010/11: on 7 and 14 July 2010, 24 November 2010 and 26 January 2011. In addition it held an informal meeting on 3 November 2010. The external members of the Committee also held informal meetings with the Director of Internal Audit, the House’s new Finance Director,
Myfanwy Barrett, and the NAO’s new Client Director (Parliament) on 16 March 2011.

9. The Committee had two meetings in the current financial year before this report was agreed, on 27 April and 6 July 2011.

Internal Audit and partnership

10. 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. The Director also circulates a written monthly progress report both to Members of the Committee and to stakeholders across the House, enabling the Committee more precisely to track progress with each audit.

11. There were no changes in the staffing of IA during 2010/11. We were pleased to note that two of the staff continued their professional studies with the Chartered Institute of Internal Auditors, with one other becoming a formal member of the Institute. All qualified staff maintained their continuing professional development in the year.

12. During 2010/11 Deloitte continued its role as IA’s strategic partner, under the terms of the contract approved on 1 October 2009. Deloitte assisted in nine audits during the year. Due to the specialist skills required, it also took on the entire Financial Management audit.

Internal audits considered by the Committee

13. During 2010/11 the Committee was notified of 32 audits relating to the Administration Estimate, including 14 audits which were delivered up to the end of the previous financial year but after the Committee’s final meeting in 2009/10. Three audits were received by the Committee after its final meeting of 2010/11 and were considered at its April meeting.

14. 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. Of the 32 reports considered by the external members during the year, 22 were considered by the external members only, and ten were discussed by the Committee as a whole.

15. Audits discussed by the Committee dealt with a wide range of topics, covering core audit issues such as financial controls and project and contract management, and corporate issues such as governance, risk management, corporate and departmental information, and information assurance. The Committee also considered a number of value-for-money audits including on learning and development and transport arrangements.

16. It was agreed by the Committee in April 2008 that IA should undertake follow up reviews when an audit had been issued for six months. The Committee received a number of follow-up audits including regular progress updates from monthly tracking by internal audit. The main follow up work was on project assurance, procurement and key financial controls.

17. 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

18. The Committee continued to fulfil its responsibility to monitor the management of risk, now made even more explicit in its revised terms of reference (see paragraph 1 above).

19. In July 2010 it considered a follow up review of the 2009 audit of risk management, which had found that the House’s risk management system had been established and that initial development of policy had been good, but there had then been slippage in the project and expected benefits had not been realised. Most importantly, risk assessment and mitigating actions are not yet suitably recorded on a common basis across the organisation, but development work is underway on this. The Committee noted that the Board had appointed a Director General as a risk champion to drive the project forward and asked for regular updates at key milestones. In January 2011, the Head of the Office of the Chief Executive updated the Committee on the Management Board’s workshop on risk and outlined the new risks which would be included in a revised corporate risk register.

20. The Committee has also continued to invite senior managers to its meeting to discuss how they manage risk in their area, hearing from Janet Rissen, Director of Business Management and Development, in the former Department of Resources (July 2010) and Fergus Reid, Business Manager, PICT (November 2010).
21. 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 reviewed by the Committee in January 2011 and a reference to value-for-money work was added.

22. The Committee considered and agreed an Internal Audit Strategy and draft programme for the programme for 2011/12 at its January 2011 meeting. At this meeting the Committee also adopted revised Government Internal Audit Standards as the professional framework for the service.

23. The National Audit Office (NAO) has continued to provide an external audit function for the House of Commons. In December Chris Bedford took over from Helen Booth as Client Director for Parliament. 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.

24. The external members of the Committee met with NAO and Department of Resources staff in June 2010 to discuss the draft House of Commons: Administration Accounts for 2009/10. Following this the accounts were discussed by the full Committee on 7 and 14 July 2010 prior to being signed off by the Clerk of the House, as Accounting Officer.

25. In January 2011 the Committee discussed the NAO’s planned approach to auditing the House of Commons Resource Accounts 2011/12. The NAO raised two significant risks in its planned approach to auditing the House of Commons Resource Accounts 2011/12: parliamentary accommodation and heritage assets and also identified a number of risk factors – the Savings Programme, including how the voluntary exit scheme was accounted for; shared service ratios; and the appointment of a new Finance Director.

26. Following a recommendation by the NAO during its April 2011 meeting, the Committee received a paper from the Finance Director in June examining the options for arriving at a valuation of the Parliamentary Art Collection in accordance with the accounting standard (FRS 30) for heritage assets.

27. The Committee continues to share agendas and minutes with the House of Lords Audit Committee.

28. A joint informal meeting of the Committees was planned for January 2011 but had to be cancelled by the House of Lords Committee. The Committees have rearranged this meeting for July 2011 and in the meantime the Chairmen have discussed issues relevant to both House’s Internal Audit programmes. We look forward to working more closely together in future.

29. 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 2010/11.

30. The AEAC publishes its minutes and annual reports on its page on the parliamentary website: www.parliament.uk/business/committees/committees-a-z/other-committees/administration-estimate-audit.