House of Commons: Members Estimate

Members Estimate Audit Committee
Annual Report 2009-10
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Introduction

1. This is the sixth annual report of the House of Commons Members Estimate Audit Committee (MEAC), which was established by the House of Commons Members Estimate Committee (MEC) on 14 June 2004, following changes to the governance structure for the Members Estimate agreed by the House in January 2004.

2. This report sets out the events and issues relating to audit and assurance of the Members Estimate during the financial year 2009-10, and the related activities of the MEAC. Details of the membership, meetings and terms of reference of the Committee are included as an appendix.

Members’ allowances

3. As set out in previous annual reports, the MEAC has had concerns about the risks associated with the governance, audit and assurance of Members' allowances since the Committee was first established in 2004. During 2009 and 2010 a number of these risks have crystallised, and Members’ allowances have been subject to considerable public attention. During this period the Committee has sought to maintain its oversight of the Members Estimate, to assess the assurance which could be provided to the Accounting Officer and to advise him in the exercise of his responsibilities.

Context

Financial year 2008-09

4. In order to understand the issues which arose during 2009-10 it is helpful to be aware of their history. In June 2008 the MEC published a Review of Allowances (Third report of Session 2007-08) which was informed by a memorandum submitted by the MEAC and made a number of recommendations relating to audit and assurance of Members’ allowances. These included the recommendation “that the House extends the scope of the audit engagement so that it is the same as for other public bodies”; that is a “full-scope” audit. The report was debated in the House on 3 July 2008; the recommendation to move to full scope audit was not then agreed to.

5. In order to understand the possible implications of moving to a full scope audit, the Accounting Officer asked the NAO to undertake a trial of audit work on a full scope basis. The work covered a small sample of claims on five allowances over a three month period, and was intended to provide an indication of the issues that might arise under a full scope audit. Interim results of this work were reported to the Committee at its October 2008 meeting. The NAO’s trial run did not include the entire spectrum of work which would be undertaken on a full year full scope audit. For example, it did not include an advance risk assessment to allow the NAO to identify where to concentrate its work and how much work to undertake, in order to support the audit opinion. The NAO identified three issues but concluded that "supporting evidence submitted [by Members] was sufficient". The Committee and the Accounting Officer noted the NAO’s conclusion that their work did not give grounds for serious concern about Members’ use of their allowances. The NAO made a further report on this work in April 2009.

6. In October 2008 at the request of the MEC, the MEAC undertook a review of audit and assurance arrangements for spending on Members’ allowances. The MEC published the MEAC’s resulting report as an annex to its first report of Session 2008-09 (Revised Green Book and audit of Members' allowances, HC142). The report was debated in the House on 22 January 2009: the House resolved to accept all its recommendations, including that the Accounting Officer remove the limitation on the scope of the external auditor’s audit, and that the MEAC should advise the Accounting Officer on whether the level of assurance he had received was sufficient to consider
removing the limitation on his Statement of Internal Control. A revised version of the Green Book was also agreed, which came into effect on 1 April 2009.

7. Although the House had made decisions of principle about the audit and assurance of Members’ allowances at the end of January, further matters of detail and practical arrangements remained to be resolved. The complexities in the governance of Members’ allowances meant that these issues had not been fully resolved by the end of the financial year 2008-09 (the proposed changes needed to be agreed by a number of different committees who were not in agreement). The MEAC held two further additional meetings in March 2009 to assess progress, one jointly with the Finance and Services Committee, because of its concerns about the speed of implementation of the House’s decisions. The external members of the Committee expressed concern that the proposed new governance system for Members’ allowances, under which Member committees would be responsible both for formulating rules and for determining appeals regarding adherence to those rules, would be contrary to best practice.

Financial year 2009-10

Committee on Standards in Public Life
8. In April 2009, following widespread press coverage of Members’ allowances, the Prime Minister asked the Committee on Standards in Public Life (CSPL) to bring forward its proposed inquiry into Members’ allowances. The CSPL finally issued its report in November 2009.

Publication of expenses information
9. On 8 May the Daily Telegraph began to publish leaked information relating to Members’ expenses. The information, which was held by the House of Commons, had been being prepared for publication in redacted form in response to Freedom of Information requests. The Telegraph published material based on the information in its unredacted form.

10. The Clerk of the House, as Data Controller under the Data Protection Act 1998, initiated an investigation into the loss of the data. The investigation concluded that data security procedures and practices in use by the House of Commons Administration were not the cause of the data loss. Equally, the procedures used by the private contractor employed by the House during the redaction of personal data from the detail of Members’ expenses were not the direct cause of that loss. It was virtually certain, though, that the data was misused during the redaction process by one or more individuals who were not employed by the House but whose duties gave them the opportunity of access to the data. The Department of Resources responded to the unauthorised disclosures by bringing all further scanning operations in-house.

11. At a meeting on 20 May, following a statement by the Speaker and a meeting of party leaders on 18 May, the MEC agreed a series of changes to the Green Book, to apply to expenditure incurred after 19 May and any claims received by the Department of Resources after 1 June. Restrictions were placed on claims against the allowance for Personal Additional Accommodation Expenditure (PAAE) and changes in the designation of main and additional homes were disallowed. A further revision of the Green Book, reflecting these changes, was published in July 2009. The Department of Resources was instructed to make arrangements for the quarterly publication of transaction-level information from the start of the financial year 2009-10. This information has since been published on a quarterly basis.

Independent Parliamentary Standards Authority
12. On 23 June the Secretary of State for Justice introduced the Parliamentary Standards Bill in the House of Commons. The MEAC submitted an explanatory memorandum on audit and assurance aspects of the Bill to inform debate in the House at second reading and report stage. The memo addressed issues relating to the role, structure and audit of the new Authority created by the Bill, as well as its financial effects and implications for the House Service.

13. The Parliamentary Standards Act became law on 21 July, establishing a statutory Independent Parliamentary Standards Authority (IPSA) with responsibility for devising a scheme for Members’ allowances and for determining claims. An interim Chief Executive of IPSA, Andrew McDonald, was appointed in September. Following a process of open competition Sir Ian Kennedy was appointed as Chair and Jackie Ballard, Rt Hon Lord Justice Scott Baker, Ken Olisa, and Professor
Isobel Sharp as board members of IPSA. A joint House of Commons-IPSA implementation board was set up to facilitate the establishment of the IPSA, including the transfer of certain House of Commons staff to the new body. In early January 2010, the IPSA published a paper setting out proposals for its new scheme for Members’ expenses, and conducted a consultation on the paper, which concluded in early February. IPSA began administering Members’ allowances following the General Election held on 6 May 2010.

14. At its meetings throughout 2009-10 the MEAC received updates on the establishment of IPSA and the transfer of staff and functions from the House to the new Authority. In February 2010 the Chairman wrote to the Chairman of IPSA, expressing the Committee’s view that the recommendation of the Committee on Standards in Public Life that the House and IPSA establish a joint audit committee risked compromising the independence of both bodies. Similar views have been expressed by the Comptroller and Auditor General and Andrew MacDonald.

**Legg Review**

15. In response to the Daily Telegraph’s publication of unredacted expenses data, in May 2009 the MEC directed the Accounting Officer to instruct the Department of Resources to make arrangements for a re-examination of claims under the former Additional Costs Allowance over the period 2004-05 to 2007-08. The period under examination was later extended to 2008-09. Sir Thomas Legg was appointed to lead this review, resigning from his position as external member of the Audit Committees in order to do so. Sir Thomas examined claims in relation to the rules which existed at the time they were submitted. He delivered his initial report to the MEC in late December 2009. The MEC decided that it would be appropriate to provide a means of adjudication on appeals against Sir Thomas’s recommendations, for which purpose it appointed Sir Paul Kennedy. The final conclusions reached by Sir Thomas and the reasoned judgments of Sir Paul on the appeals he had received were published together on 4 February 2010 (HC348). 96% of the sums identified as inappropriately paid have now been repaid to the House.

**Department of Resources**

16. The Committee has been conscious of the large number of demands which have been placed upon management and staff of the Department of Resources during the financial year 2009-10, which have had an impact on the ability of the department to operate internal controls and ensure compliance with the requirements of the allowances regime to the level desired. These demands have included the reviews of Members’ allowances by the Committee on Standards in Public Life (“the Kelly review”) and Sir Thomas Legg KCB QC; the preparation of allowances information for release under the Freedom of Information Act; and, the transfer of services and staff to IPSA.

**External audit**

17. Following the decision of the House in January 2009 to remove the limitation on the scope of the external audit of the Members Estimate accounts, the Accounting Officer and C&AG met in June 2009 to agree a revised scope of engagement for the NAO’s audit. This was subsequently reflected in a revised letter of engagement signed between the House and the NAO in February 2010.

18. At its October 2009 meeting the MEAC considered the NAO’s audit strategy for the 2009/10 accounts. The NAO had already begun in-year work on the accounts, which continued throughout the financial year, and reported their initial findings to the MEAC. The MEAC discussed the importance of close collaboration between the Department of Resources and the NAO to ensure that work undertaken to support the audit was proportionate, well prioritised and front-loaded as far as possible. The Committee argued that where the evidence required by the Green Book to support allowance payments was identified as missing, payments should not be made.

19. The Department of Resources worked closely with the NAO, first to establish the requirements for the first “full scope” audit of the accounts, and then to provide the evidence required. Because of its concern about the audit’s outcome, the MEAC continued to monitor the progress of the NAO audit, through regular meetings between the external members, the NAO, the Director of Internal Audit and the Director General of Resources. The external members updated the Chairman of the Committee following these meetings, in person or in writing.
20. In December 2009 the MEC agreed to a request from the Director General of Resources for additional resource to assist his Department's work to support the NAO's audit by ensuring that evidence requirements in support of payments were being complied with. The Accounting Officer met the Comptroller and Auditor General who confirmed that the additional expenditure involved in supporting this work was, in his view, an appropriate use of public funds. A small team was brought together to work on the project, including staff from Deloitte, the new Internal Audit partner, and staff from the Department of Resources. A senior manager was appointed to lead the work, reporting directly to the Accounting Officer. The work involved identifying instances where inadequate evidence was available to support payments which had been made, and contacting Members to seek that evidence in order to rectify the position. In February 2010 the MEC explicitly delegated authority for the Department of Resources to stop certain payments where insufficient evidence had been provided.

21. Fortnightly meetings between the Department of Resources, the NAO and the Director of Internal Audit were held to track progress, which were attended by the Secretary to the MEAC. At its meeting in January 2010, the MEAC received a report of interim audit findings from the NAO, which provisionally indicated that around one in four payments did not have the level of evidence required by the Green Book. The Committee also received an update on progress from the Department of Resources. The Committee was informed of plans to notify all Members about the NAO's audit and to seek further information from those from whom it was still required. The Committee expressed the view that the accounts should be laid before the summer recess if possible but that in the mean time the collection of supporting evidence should continue with maximum urgency.

22. The MEAC received a further report on progress at its March meeting, and in the interim the Chairman of the Committee was updated on a regular basis. The Committee was conscious that the approaching general election was likely to affect the rate of response from Members to requests for further information about their allowance claims.

23. The Department of Resources continued to seek evidence from Members following the end of the financial year, focusing on the most significant areas of expenditure. At its 7 July 2010 meeting, the Committee received an update on the progress made in securing an adequate level of evidence to support the payments which had been made. At its 14 July meeting the Committee agreed to write to the MEC expressing the Committee’s concerns about the potential reputational risk to the House if new proactive and strenuous efforts were not made to support management’s work to secure the remaining evidence required. At its subsequent meeting the MEC asked the Accounting Officer to write to all Members concerned setting out the background to the audit and emphasising the importance of compliance with requests for further information. This was done.

24. The restorative exercise continued until 25 October when the MEC instructed the Department of Resources to close the accounts. By its conclusion, the exercise had achieved marked improvements in the level of unsupported expenditure in the most significant areas of spend (staff salaries, mortgage interest, home and office rentals – see table in the Statement on Internal Control).

25. The Committee notes that the expenditure which the NAO considers to have been “paid incorrectly or where entitlement could not be demonstrated” is divided into three tranches. The first tranche of expenditure (£0.8 million) which the NAO considers to have been “paid incorrectly or where entitlement could not be demonstrated” consists of expenditure “where evidence had not been obtained by the House in accordance with the framework of rules governing the administration of Members’ Expenses.” The Committee notes that management has stated that in most cases there is some evidence to support this expenditure, but that the NAO has opined that it is insufficient to demonstrate, in all material respects that the expenditure was for Parliamentary purposes.

26. The Members Estimate Committee agreed a series of high level tests to be applied to this expenditure in order to establish whether the payment should be considered a recoverable debt. The MEC decided that the House would seek to recover monies from Members where supporting evidence had not been provided as required under the Green Book, and there was either: direct evidence that an incorrect payment may have been made; or, no alternative evidence in support
of the existence and/or accuracy of the underlying transaction. The application of these criteria led to the identification of a total of £33,794 to be recovered, of which £17,612 applied to former Members. This sum was written off due to the limited prospects of recovery, leaving £16,181 to be recovered from current Members. The Committee notes the criteria and is satisfied that the way in which the criteria have been applied is appropriate.

27. The second tranche of expenditure (£1.8 million) relates to the total allowances paid to certain MPs for the year in question, where evidence was held by the police for investigation and was not, therefore, available for audit purposes. As the NAO was unable to audit the expenditure, the C&AG had to qualify his regularity opinion in this respect.

28. The third tranche of expenditure (£11.3 million) consists of that where evidence was obtained by the House in line with the requirements of the Green Book, but where the NAO has opined that those requirements were insufficient to prove that the expenditure was for Parliamentary purposes. The MEAC had previously discussed its concerns about the adequacy of the evidencing requirements of the Green Book. Having taken the view that certain Green Book requirements were inadequate, the NAO elected not to undertake any audit work on these areas of expenditure and was therefore unable to include the expenditure within the scope of its opinion. The Committee notes that management has stated that it has found no evidence to suggest that any of this expenditure was not for Parliamentary purposes. The Committee further notes that the NAO is satisfied that the evidence requirements are met for this tranche of expenditure, in choosing not to qualify its “true and fair” opinion on the accounts.

Internal audit

29. The MEAC approved an Internal Audit plan for the Members Estimate 2009-10 at its 4 March 2009 meeting. Between March and May 2009 the Internal Audit Service undertook a review of certain aspects of the administration of Members’ allowances from the 2008-09 plan, the findings of which were considered by the MEAC in October 2009.

30. The workload created for the Department of Resources by the various events detailed above prevented the initiation of the Internal Audit plan at the start of the financial year. At the October 2009 Committee meeting a proposal for monthly key control testing, to replace the original plan, was put forward and discussed. This proposal was superseded however, following consideration of the initial findings of the NAO’s audit work for 2009-10, which, as set out above, resulted in the introduction of a compliance team to undertake 100% checks on key areas.

31. Members of the internal audit team were involved in Sir Thomas Legg’s review of ACA payments. The amount of resource provided had a significant impact on the team’s planning, and was agreed by management to be an appropriate use of the resource. Internal audit work on Members Estimate expenditure for 2009-10 was therefore limited to attendance at liaison meetings with the Department and NAO. In the circumstances the MEAC was content to rely on the work of the NAO.

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32. The external members of the Committee met with NAO and Department of Resources staff in November 2010 to discuss the draft House of Commons: Members Accounts for 2009-10. Following this the accounts were discussed by the full Committee at its 24 November 2010 meeting prior to their being signed off by the Clerk of the House, as Accounting Officer.

33. Among the issues discussed by the Committee on 24 November was the sizeable deficit in the Parliamentary Contributory Pension Fund and the importance of this being reduced. It is anticipated that in the future the administration of the PCPF will be transferred to the Independent Parliamentary Standards Authority.
Conclusion

34. The Committee met four times and rendered advice to the Accounting Officer, the vast majority of which is reflected in the annual report and accounts.

35. The Committee considers that the NAO opinion correctly reflects the position in relation to the Members Estimate Accounts during 2009-10. The administration of transactions under the Estimate was made more difficult for the Department of Resources by a series of in-year changes in the rules under which Members could claim expenses, combined with the introduction of a full-scope NAO audit and a number of other initiatives which the Department was required to support. It would have been desirable for the Member committees concerned to have considerably tightened the evidence requirements of the Green Book at an earlier stage and for the implications of the rule changes, and the raising of expectations as regards the propriety of Members' expenses, which did occur to have been reflected more quickly in the House’s internal control processes, as the Committee advised at the time. The time lag before the changes were fully implemented was too long and indicates shortcomings in the ability of the House’s internal control and complex governance systems to respond quickly to external shocks.

36. However, once the NAO had identified significant inadequacies in the evidence available to support a large number of claims, the House Administration initiated a major programme of work to establish the extent to which payments were unsupported and, where this was the case, to obtain the evidence needed to support the payments which had been made. The programme had significant success in reducing the insufficiently supported sum to £0.8 million (the subject of the NAO’s first qualification of the accounts). The Committee notes that of this £0.8 million, the amount liable to be recovered, that is where incorrect payments were identified or supporting evidence was entirely absent, was under £34,000. The Committee notes that the NAO has implicitly endorsed the way in which the House has accounted for Members' expenses, including the application of the criteria agreed by the MEC to determine the amounts to be recovered, in choosing not to qualify its “true and fair” opinion on the accounts.

37. As discussed earlier in this report, the C&AG has also qualified his regularity opinion on the accounts in two other respects. First in relation to £1.8 million of expenditure where evidence was not available to the NAO as the Members concerned were subject to investigation by the police. Secondly, the NAO have qualified their opinion in respect of £11.3 million of expenditure which was made and correctly accounted for within the rules of the Green Book regime, as agreed by the House. The Independent Parliamentary Standards Authority has been responsible for the design and implementation of a scheme of Members allowances since the 2010 General Election.
Appendix

Membership

38. Alan Duncan MP served as Chairman of the Committee from the start of the financial year until 19 October 2009, when the Rt Hon Sir George Young MP was appointed Chairman.

39. During 2009-10 Nick Harvey MP and Clive Betts MP served as members of the Committee. David Taylor and Alex Jablonowski served as external members. Sir Thomas Legg KCB QC resigned his position as the third external member at the end of June, in order to undertake a review of the Additional Costs Allowance. His position was taken by Mark Clarke, whose appointment, following a process of open competition, was agreed by the MEC in April 2009.

40. After the end of the 2009-10 financial year there were further changes in the membership of the Committee. On 21 June, following the general election and Sir George’s subsequent appointment as Leader of the House of Commons, the MEC decided to appoint Alex Jablonowski as an external Chairman of the Committee. This decision was in line with a recommendation of the 2007 Tebbit Review, which was also reflected in the 2009 report Members’ Allowances published by the Committee on Standards in Public Life. The Rt Hon Rosie Winterton MP, the Shadow Leader of the House, was appointed as a member of the Committee. Following a process of open competition, Stephen Brooker took over from David Taylor as an external member of the committee on 1 July 2010.

41. There were further changes to the membership of the Committee immediately prior to its final consideration of the Members Estimate accounts for 2009-10 in October 2010. Following changes to the membership of the MEC in the wake of the general election, the MEC decided in October 2010 to appoint John Thurso MP as a member of the Committee. Mr Thurso had already been appointed as a member of the MEC and Chairman of the Finance and Services Committee. The MEC decided to appoint the Rt Hon Sir Alan Haselhurst MP, Chairman of the Administration Committee, as the second Member on the Committee. Following the Labour party’s Shadow Cabinet elections, the Rt Hon Hilary Benn MP became Shadow Leader of the House, and was appointed by the MEC as the third Member on the Committee.

42. The membership of the Administration Estimate Audit Committee also reflects these changes.

43. The Clerk of the House, the Director General, Resources, and the Director of Internal Audit attend meetings, although they may withdraw for specific items at the Committee’s, or their own request.

44. The Committee’s secretary is the Private Secretary to the Clerk of the House, Hannah White. The Committee has also been supported by a part-time Committee Assistant.

Meetings

45. The Committee met four times in the financial year 2009-10. It gave further consideration to the Members Estimate accounts for 2009-10 at meetings in July and November 2010. In addition it held an informal “away morning” on 24 September 2009.

Information about the Committee

46. The Committee has a page on the Parliament website on which are published its membership, terms of reference and annual reports. Minutes of meetings are also published online. In July 2009 the Committee agreed that from that meeting onwards, a full minute of the Committee’s proceedings should be published online, in place of the shorter formal minutes which had been published previously.
The Members Estimate Audit Committee has the same membership as the Administration Estimate Audit Committee (AEAC) and usually meets immediately after meetings of the AEAC. Areas of overlap between the Audit Committees, for example in relation to the regular report on the work of Internal Audit (IA), are usually discussed in AEAC meetings but minuted separately.

The Committee has agreed to adopt the same arrangements and procedures as the AEAC, as far as is practicable. Consequently:

- representatives from the National Audit Office (NAO) and the internal audit partner, who work with the House’s Internal Audit Service, usually attend meetings of the Committee;
- internal audit reports are considered first by the external members of the Committee, who may refer matters for discussion by the full Committee; and
- notwithstanding the difference in the roles of the Commission and the Members Estimate Committee in respect of the two House Estimates, the same procedure is used for advising the Accounting Officer on the Members Accounts as is used in relation to the Administration Accounts.

The annual report of the AEAC was published with the House of Commons Commission’s Annual Report for 2009-10 in the summer of 2010.

Terms of reference

The Committee’s current terms of reference are:

On behalf of the Members Estimate Committee, to:

- have general oversight of the work of internal audit and review relating to the Members Estimate, with particular emphasis on promoting economic, efficient and effective administration, and on risk assessment and control assurance;
- receive and consider reports from Internal Audit (IA), together with management letters and external audit material relating to the Members Estimate;
- monitor and review the external auditor’s independence, objectivity and effectiveness, and to make recommendations to the Members Estimate Committee about the external auditor’s appointment;
- advise the Accounting Officer in the exercise of his responsibilities;
- consider and recommend to the Accounting Officer the internal audit programme for the Members Estimate;
- encourage best financial practice, use of resources and governance in relation to the Members Estimate;
- report annually, the report to be published with the Members Estimate annual accounts.

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1 In October 2009, Deloitte took over the contract for the Internal Audit partner from PriceWaterhouseCoopers.