House of Commons: Members Estimate

Members Estimate Audit Committee
Annual Report 2010-11
MEMBERS ESTIMATE AUDIT COMMITTEE ANNUAL REPORT 2010-11

Introduction

1. This is the seventh 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 outlines the MEAC’s conclusions in relation to the Members 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 MEAC’s membership and activity during the year are provided in the Appendix to this report. In April 2011 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. IPSA took over responsibility for Members’ allowances the day after the General Election. The size of the Members’ Estimate is therefore much smaller than last year’s.

5. The external auditors raised three fundamental internal control issues in relation to evidentiary requirements in respect of last year’s accounts:

   (a) payments where the requirements of the “Green Book” (the then framework of rules governing the administration of Members’ allowances) for supporting documentation were not met in full (£0.8 million of payments);

   (b) payments relating to the total allowances paid to certain Members for the year in question, where evidence was held by the police for investigation and was not, therefore, available for audit purposes (£1.8 million of payments);

   (c) expenditure where evidence was obtained by the House in line with the requirements of the Green Book, but where the NAO took the view that those requirements were insufficient to prove that the expenditure was for parliamentary purposes and therefore was unable to obtain the assurance it required (£11.3 million of expenditure).

6. The first issue (inadequately supported claims) was largely dealt with by the retrospective work carried out last autumn to obtain sufficient evidence (see Appendix for more details) and the subsequent tightening of controls. The figure for 2010-11 was smaller - £144,000, compared to £830,000 last year – and primarily related to staff contracts and property rental agreements. £16,000 was recognised in the 2009-10 Resource Accounts as amounts to be recovered where payments had been made to Members without adequate supporting evidence; we note that management had successfully managed to reduce that amount to £3,000, owed by a single Member, as of 31 August 2011.

7. The second issue (payments where evidence was held by the police and therefore unavailable for audit purposes) has continued but the amount involved is smaller - £52,000, if the Members’ salary payments are included (it was £1.8 million last year). The NAO’s view was that it required names to satisfy itself with regard to evidence under investigation by the police. The Accounting Offer decided not to release this information. We accept and respect this decision. [See also our comments in paragraph 15].

8. The third issue (Green Book evidence not sufficient) continued to apply to some of the payments made in the first part of the financial year before the House had transferred responsibilities to IPSA. The 2010-11 figure was £291,000, which was smaller than last year (£11.3 million). The dissolution of Parliament in April 2010 meant that payments to Members under the Members Estimate in the last financial year were not material and in future years the issue will be one for IPSA to address.

9. We accept management’s conclusion that the transition to IPSA was carried out successfully and we received assurance that the risk of items being claimed from both allowance systems had been mitigated.
10. The Committee will continue to monitor closely any developments on the future of the Members Estimate (see Appendix).

The integrity of the annual Resource Accounts

11. 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.

12. We are satisfied with the Statement on Internal Control. We recommend that management review the wording of the rules governing the payment of Short Money and Representative Money to avoid future confusion in periods immediately after a General Election.

The work of the internal audit service

13. No specific internal audit reports were carried out on the Members Estimate for the reasons set out in the Appendix and we note that the Director of Internal Audit has not therefore been able to provide a formal opinion on that Estimate. We are satisfied with that in the circumstances. We refer readers to the Annual Report of the Administration Estimate Audit Committee for our conclusions on the overall control environment.

The external audit by the external auditor

14. 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. We note that the NAO’s Audit Completion Report and opinion were delivered late and that our review therefore had to be carried after the summer recess, resulting in late publication of the accounts.

15. We note the NAO’s reason for qualifying the accounts. It was solely the names of MPs under investigation that were withheld and, as we have said above, we accept and respect the Accounting Officer’s reasons for doing so. No explanations were withheld and all transaction details were provided, as well as an additional summary of those claims under investigation on an anonymised basis. Management has taken appropriate steps to implement recommendations made by the NAO in 2009-10.

Other matters as were referred to the Committee by either the Accounting Officer or the Commission

16. No other matters were referred to the Committee by the Accounting Officer or the Commission in 2010-11.
Appendix

Terms of reference

1. In April 2011 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 16 May 2011:

REMIT
The Members Estimate Audit Committee (“The Committee”) pursues its objectives and fulfils its responsibilities on behalf of the Members Estimate Committee (“MEC”) and, as it deems appropriate, shall draw any matters arising within these terms of reference to the attention of the Members Estimate Committee.

MEMBERSHIP
The membership of the Committee shall be:

- 3 MP members, including:
  - A Member of the Members Estimate Committee
  - A Member of the Finance & Services Committee
- 3 External Members, appointed by the MEC

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

OBJECTIVES
The Committee has been established to support the Accounting Officer in discharging his responsibilities under the Members Estimate, particularly with regard to the maintenance of an effective system of internal control. The Members Estimate contains financial assistance to Opposition parties (Short Money and Representative Money); the Members Fund; ICT maintenance and equipment depreciation; training for Members and their staff; disability assistance; insurance and contributions to the Members’ pension scheme (the Parliamentary Contributory Pension Fund (PCPF).

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 Members Estimate Committee

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; and
- 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 will 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; and
• 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; and
• 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 will 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; and
• annual review of the external auditor’s independence and effectiveness.

RELATIONSHIP WITH THE ADMINISTRATION ESTIMATE AUDIT COMMITTEE

The Committee will rely upon the work of the Administration Estimate Audit Committee (AEAC) on matters that relate to the overall governance, risk management and internal control of the House of Commons Administration, and concentrate its own work on those parts of its responsibilities that specifically relate to matters under the Members Estimate. Where relevant, the Committee will take into account the results of the AEAC’s deliberations in drawing conclusions on its own work.

Membership

2. Alex Jablonowski 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 Administration 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.

External Audit

2009-10 Resource Accounts

10. 2009-10 was the first year in which the House’s external auditor, the National Audit Office (NAO), was requested to carry out a “full scope” audit of the Members Estimate Accounts, including an opinion on the regularity of expenditure.

11. The Comptroller and Auditor General qualified his opinion on regularity on three different categories of expenditure:

(a) in respect of £0.8 million of payments where the requirements of the “Green Book” (the then framework of rules governing the administration of Members’ allowances) for supporting documentation were not met in full;

(b) in respect of £1.8 million of payments relating 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;

(c) in respect of £11.3 million of expenditure where evidence was obtained by the House in line with the requirements of the Green Book, but where the NAO took the view that those requirements were insufficient to prove that the expenditure was for parliamentary purposes and therefore elected not to undertake any audit work in these areas.

12. The Committee, in three of its four meetings in 2010-11, took a detailed interest in the results of the audit and management’s remedial actions, including the disclosures in the Resource Accounts and the wording of the Statement of Internal Control. A more detailed exposition of this involvement was set out in the Committee’s 2009-10 Annual Report, published with the Accounts in December 2010.

2010-11 Members Estimate

13. The Independent Parliamentary Standards Authority (IPSA) took over administration of Members’ salaries and allowances following the General Election on 6 May 2010, and consequently the size of the Members Estimate has become much smaller. It now covers only: financial assistance to Opposition parties to support them in the discharge of their parliamentary or representative functions (Short Money and Representative Money); the Members Fund; ICT maintenance and equipment depreciation; training for Members and their staff; disability assistance; insurance and contributions to the Members’ pension scheme (the Parliamentary Contributory Pension Fund (PCPF)).

14. The 2010-11 Resource Accounts include Members’ salaries and allowances claimed up to the date of the General Election, together with the Resettlement Grant and Winding Up allowance payments which arose after the Election. While the amounts claimed in this period were small, it was nevertheless possible that some of the issues that resulted in a qualification in last year’s accounts would arise with respect to evidential requirements. The Members Estimate Audit Committee’s main focus for this year’s accounts was therefore to ensure the system of internal control was sufficiently effective and to minimise the risk of receiving a qualified opinion from the NAO.

15. In January 2011 the Committee discussed the NAO’s planned approach to auditing the House of Commons Resource Accounts 2010-11 with the NAO and the then Director General of Resources. The Committee asked for an update on what proportion of the allowances paid during the transition period to IPSA was potentially unsupported and the likelihood of receiving another qualified opinion.
16. The NAO also raised risks relating to: the timetable for assurances from political parties’ auditors on use of Short Money and Representative Money; the treatment of receivables; the reorganisation of the Department of Resources (into a new Department of Finance and a new Department of Human Resources and Change); and the assumptions used to calculate the Parliamentary Contributory Pension Fund (PCPF). The Committee discussed the first two issues at its January meeting.

17. At its April meeting the Committee considered the NAO’s update on the 2010-11 accounts audit. The NAO reported that progress had been made in some areas, but that the issue of the amount covered by police investigations and therefore unavailable to the auditors was still under discussion with management. The Committee considered the risk of qualification of the accounts and noted that the amount involved was small.

Internal Audit

18. As set out in the terms of reference above, MEAC relies upon the work of the Administration Estimate Audit Committee (AEAC) on matters that relate to the overall governance, risk management and internal control of the House of Commons Administration, and concentrates its own work on those parts of its responsibilities that specifically relate to matters under the Members Estimate. 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 and have therefore not been set out in this report but are available in the annual report of the AEAC, published with the House of Commons Commission’s Annual Report for 2010-11 (HC1439) in July 2011.

19. As detailed in last year’s annual report, the Internal Audit Plan for 2010-11 relating to the Members Estimate was superseded by the initial findings of the NAO’s audit work for 2009-10 (see External Audit above). This led the Accounting Officer to delay publication of the 2009-10 accounts and to launch a major project to retrospectively review the validity of the supporting evidence for all material items of expenditure and to ensure sufficient evidence was obtained. Until the accounts were agreed in December 2010, internal audit work was limited to attendance at liaison meeting with the then Department of Resources and the NAO, with the exception of a high level review of the IPSA Transition Project arrangements.

20. After the accounts were published, Internal Audit took the view that the extent of NAO testing of transactions in 2010-11 meant that there was little scope for internal audit work that did not duplicate what would have to be covered by the NAO and no such work was carried out.

21. Give the size and scope of the Members Estimate for 2011-12, the Internal Audit Plan does not contain any specific audit work directly related to expenditure under the Members Estimate, although some will have findings that are related to management systems that cover both Estimates.

Future of the Members Estimate

22. In July 2010 the Members Estimate Committee agreed in principle that the Members Estimate should be merged with the Administration Estimate to form a single House of Commons Estimate from April 2011. However, it later received legal advice that it would not be possible to merge all elements without primary legislation because Exchequer contributions to the PCPF and to the Members’ Fund could not be said to be “for the service of the House of Commons”. (The House of Commons Administration Act requires that all expenditure under the Administration estimate is either for the expenses of the House Departments or more generally for the service of the House of Commons.) The two estimates are therefore likely to remain separate at present.

Further information about the Committee

23. The Committee publishes its minutes and annual reports on its page on the parliamentary website http://www.parliament.uk/business/committees/committees-a-z/other-committees/members-estimate-audit/role/.