ADMINISTRATION ESTIMATE
AUDIT COMMITTEE

Minutes of the meeting
held on Wednesday 9 October 2013

Members of the Committee present:

Dame Janet Gaymer DBE (Chair)   Stephen Brooker
Barbara Scott   Sir Alan Haselhurst MP

Apologies:

John Thurso MP   Angela Eagle MP

In attendance for items 1-7:

Cara Molloy, Committee Assistant
Ben Williams, Committee Secretary

In attendance for items 2-7:

Myfanwy Barrett, Director of Finance
Paul Dillon-Robinson, Director of Internal Audit
Scott Dore, National Audit Office
Tom Goldsmith, Head, Office of the Chief Executive
Bryan Ingleby, Director, Parliament, National Audit Office
Alan O'Connor, National Audit Office
Sir Robert Rogers KCB, Clerk of the House and Chief Executive
David Noon, Deloitte

In attendance for individual items

Rachel Harrison, Head, Corporate Risk Management Team (item 3 only)
Andrew Walker, Director-General, Department of HR and Change (item 5 only)
Alix Langley, Head of HR Operations (item 5 only)

1. Matters to be raised before officials and external auditors invited in

1.1.   The Committee had a private discussion about the agenda.

2. Matters arising from previous meetings

2.1   The **Chair** noted that this was her first meeting as Chair of the Audit Committee. She paid tribute to the work of the previous Chair and invited Members to let her know if there were issues that were currently not being examined by the Audit Committee that they felt should be in the agenda.

2.2 The **Chair** noted that at its previous meeting the Committee had agreed to invite the Director of PICT to attend its October meeting to discuss her department's record of implementing agreed audit actions. Since that meeting PICT had made substantial progress implementing and reporting on its agreed actions. In addition the Chief Executive had discussed the Committee's concerns with the Director of PICT and had been given assurance that performance would improve. On that basis, and following advice from Internal Audit, the Chair had decided that it was not necessary for the Director of PICT to attend this meeting. However the Committee reserved the right to call Heads of Departments to account for their departments' performance implementing audit actions if necessary.

3. Risk Management

3.1 The **Chair** noted that the purpose of this item was to increase her own knowledge of the House's Risk Management System and to follow up on concerns raised in the Committee's annual report.

3.2 **Rachel Harrison** noted that her paper set out the current risk management processes and outlined the support the Corporate Risk Management Team provided to the organisation. The Internal Audit report on the system of risk management had given the same level of assurance as previous years, but this did not reflect the granularity of the improvements that had been made – the organisation was on a journey and was continuing to improve. It was possible to make further improvement to the system to make it simpler for managers to use but making significant changes would require the introduction of an automated system. There was still a cultural barrier to getting all managers to engage with the system – some saw it as an additional burden rather thqn as a tool to help them manage their business area. The Risk Management Team would like to move the focus away from the process and to the substance of risk management – what might stop managers delivering their business objectives and how to overcome or minimise those challenges. Some staff appeared to prefer to complain about the process because that was easier than engaging with the substance.

3.3 The **Chair** asked what factors had helped the team make progress in parts of the Service that were making good use of the risk management system. **Rachel Harrison** said that buy-in from senior management and Heads of Departments was essential and that she was confident that she had the full support of the Management Board. For Heads of Departments the link to the letters of assurance process was important as they would have to provide the Clerk of the House with assurance at the end of the year that risk management was being properly used in their areas of the business.

3.4 **Sir Robert Rogers** said that he hugely valued the work done by the Corporate Risk Management Team. He agreed with the balance of the audit opinion; the House had a good system but more work was needed to embed it and he was confident that this was happening. There were currently too many red risks in the organisation, some managers appeared to think they could mark a risk red to highlight a problem without then creating an action plan to mitigate the risk or escalating it to the next level of management. The Board had sent a clear message that it expected its managers to use the risk management system.

3.5 **Sir Alan Haselhurst** asked whether there was a group of staff who were unwilling to participate and if so how that would be overcome. **Rachel Harrison** said that the Board and departmental risk register processes were working well but there was further work to do at the level below departmental risk registers, including specialist project and programme areas. The Corporate Risk Management Team also challenged Heads of Department about the performance of their teams which often acted as a spur to action.

3.6 **Sir Robert Rogers** noted the importance of addressing cross-cutting risks such as information security and health and safety.

3.7 **Barbara Scott** said that she had every confidence in the system; the problem was managers not seeing risk management as a core part of their work. The importance of effective risk management needed to be communicated effectively to front line staff in a way that they could relate to. The key question for managers to focus on was 'what keeps them awake at night?'. The managers that the Corporate Risk Management Team were engaging with needed to explain to their staff why this activity mattered.

3.8 The **Chair** asked if there was a way that the Committee could more effectively support the work of the Corporate Risk Management Team. **Rachel Harrison** said the Committee's continued support was appreciated. Her team had limited resources but that put the emphasis on the business to deliver their part of the system. The Committee could return to this issue in a year to see what progress had been made.

3.9 **Stephen Brooker** said that the Corporate Risk Management Team had delivered what the Committee wanted in terms of the risk management system. He asked whether there were any problem areas that the Committee could help the team address. **Rachel Harrison** noted that governance issues often caused problems as they complicated the ownership of risk and left it unclear who should be managing which risk – this was, in part, due to the number of groups and bodies in the House Service. There were also wider cultural problems. The **Chai**r noted that the cultural issues were for the entire House Service to solve.

3.10   **Bryan Ingleby** commented that the problems the House Service faced were shared by a number of other organisations. Developing a good system was easier than ensuring it was used consistently and effectively across the business. Another challenge was how to measure success and whether a more positive indicator than an absence of failure could be identified.

3.11   **Paul Dillon-Robinson** said the focus should be on whether the process improved the actual management of risk. There was currently a disconnect, with managers reporting a number of red risks but simultaneously giving assurance that their service was running effectively. The last audit had found instances where the key controls listed were not implemented and action plans that had not improved the management of risk. The **Chairn** said that she hoped the letter of assurance process would highlight and address some of these issues.

4.   Internal Audit Director's progress Report

4.1   **Myfanwy Barrett** discussed the work done by the Department of Finance, supported by Internal Audit, on the financial control environment. The intention had been to take a step back to look at what the environment should be, identify any gaps between the House's current position and the ideal end state. The areas that the work had focused on were the main accounting system, including budget forecasting and planning, payroll, accounts payable and accounts receivable. It had been an extremely effective exercise: management had been very engaged and had owned the process and it had also helped Internal Audit decide where to focus future audit work. In particular the accounts payable and receivable team would now play a more proactive role which should both improve the system and increase job satisfaction amongst staff. A separate piece of work was also being done with Alan O'Connor using the NAO's financial maturity model which would be another source of ideas for improvement.

4.2   The **Chair** commended this initiative as an excellent example of proactive management and the benefits that could be achieved; the point about improving job satisfaction was particularly welcome. **Myfanwy Barrett** noted that one of the themes from the Committee report had been the need for business areas to develop a vision of what "good" looked like for them and that this process had answered that question for this part of her department. **Paul Dillon-Robinson** noted the fact that this had not been a formal audit had encouraged greater frankness between the business and internal audit. The business knew that they would not have to agree actions with the audit team at the end of the process, but that managers would have discretion about the actions to be taken. The **Chair** asked how this learning could be transferred to other parts of the organisation. **Myfanwy Barrett** said that her team would be happy to discuss their experience with other teams who were interested in

undertaking a similar exercise. **Barbara Scott** noted that the willingness to adopt this approach would vary across the organisation and that plans to encourage others to undertake similar exercises needed to recognise this.

4.3 **Stephen Brooker** asked the Head of Internal Audit why he was not more concerned about the number of agreed management actions that were still outstanding. **Paul Dillon-Robinson** replied that some actions were no longer relevant as the circumstance had changed and new actions were needed to reflect that; in other areas while there had been some slippage in timescales: progress was being made and, having reviewed the information provided by managers, he was content there were legitimate reasons for the delays.

4.4 **Stephen Brooker** said that he would encourage the Committee to take an uncompromising position on action implementation – the Committee had seen examples of action plans being postponed for over a year. The **Chair** asked how implementation of audit action was reflected in staff appraisal. **Barbara Scott** commented that if the House wanted to change its culture there needed to be consequences for non-delivery; the plans to introduce a new performance management system provided an opportunity to address this issue and to look more widely at how managers were managed and evaluated. **Sir Robert Rogers** agreed with these sentiments and said staff should be made aware that the Board had given a clear mandate that implementation of these actions was a priority. He would want to see departments' performance in this area reflected in the letter of assurance process*. Action: Committee Secretary to ensure that next year's letter of assurance process includes implementation of agreed audit actions. Action: Committee Secretary to ensure the Committee's views on audit action implementing and senior staff appraisal were fed into the development of the new performance management system.*

4.4 **Stephen Brooker** noted that Internal Audit had been unable to undertake a technical piece of assurance work due to a lack of resource, and asked whether this should be a cause for concern. Paul Dillon-Robinson said that a request had come from PICT to do a technical piece of assurance work on their proposed solution for network convergence. A similar piece of work had been done during the development of the House's electronic document and record management system which had been extremely beneficial. However in this case neither Internal Audit, nor their external partners had the competency to undertake the work requested. *Action: Paul Dillon-Robinson to enquire what other means PICT intended to use to secure the assurance it required and report back to the Committee.*

4.4 **Paul Dillon-Robinson** noted that the partial assurance given in the HAIS/HAISL audit was due to the large number of relatively small issues found in their sample. While no single issue was in itself critical, the cumulative effect of the small errors led Internal Audit to form a negative

opinion of the system. It was noted that the scope of the audit was relatively small, focussing on access controls, and was not a judgement on the entire HAIS/HAISL system. The action plan to resolve the issue identified appeared to be appropriate – this would be followed up by Internal Audit as part of its ICT testing in the 4th quarter.

4.5   **Sir Robert Rogers** asked how the planned audit of social media would link to the review of Online Services that the two Clerks had commissioned. **Paul Dillon-Robinson** said that the scope of the two exercises was very different; the audit was a technical piece of work, not looking at the strategic purpose of the website which would be covered by the review of online services. Where there was an overlap, for example on use of social media, internal audit would ensure its work was co-ordinated with the wider review.

4.6   The **Committee confirmed** that the Internal Audit plan for the remainder of the year was appropriate.

5. Sickness Absence Recording: Audit Report

5.1   The **Chair** opened the discussion and suggested that the discussion should focus on whether the current system was producing consistent and reliable data and what the risks were, rather than looking at the technical details of whether the final information was calculated by headcount or FTE.

5.2   **Paul Dillon-Robinson** said that the criteria that internal audit had used for its assessment was whether the data was complete, accurate and valid. On the basis of the work it had conducted it would not give assurance that the system was producing a complete record of sickness absence given the way the system collects information and the number of self-certification and doctors' notes that were sent to HR. This information was reported to the Management Board and was used to manage sickness so the accuracy and completeness of this data set was important. The **Chair** asked whether the audit had looked at the link between this issue and the House Service's Health & Safety liabilities. **Paul Dillon-Robinson** said that this would be addressed in the audit of absence management. **Barbara Scott** asked what impact the results of the current audit would have on the scope of the planned audit of the management of absence. **Paul Dillon-Robinson** said that the second audit would focus on the management of recorded absence, but could contain a caveat about the completeness of records on which the audit was based.

5.3   **Andrew Walker** said that management agreed with Internal Audit that the data was not complete, but that no organisation had a complete record so a judgment was needed on how big the gap was and whether this needed to be addressed. The important issue was whether a more accurate system would make the management of sickness absence more effective. His view was that

it would not make a significant difference, although a more complete picture might make it easier to identify underlying causes or trends in sickness absences. There was an issue of proportionality and whether the costs of the kind of system recommended by internal audit, which would involve having extra returns checked by HR, would produce information that would lead to a different management approach at a cost that represented value for money. He noted that his Department was currently trying to reduce its costs. He believed that a more effective solution would be to get managers and staff to take responsibility for reporting sickness using an electronic system. HR has been investigating the system used by Cranfield University, which they believed would be effective without the bureaucracy that would be created by Internal Audit's solution.

5.4 **The Chair** asked what currently happened if someone did not arrive at work on a day when they were expected in. **Alix Langley** said that this was initially dealt with by local arrangements in departments. When the staff member returned they should complete a self certification sickness note or produce a sick note from a doctor. They should then meet their manager for a return to work interview and the sick note would then be sent to HR for inputting. If the issue continued then it could become a disciplinary issue. **The Chair** noted that the current system was very reliant on managers contacting HR. **Alix Langley** said she was confident that managers contacted HR if staff did not turn up for work and did not make contact through other means. In many cases the forms were not submitted and HR could not follow this up without the system that Internal Audit was advocating.

5.5 **Sir Alan Haselhurst** asked what arrangements were in place if a line manager was not able to meet a member of staff when they returned to work. **Alix Langley** replied that in those cases the self-reporting form told staff to speak to their countersigning officer or HR business partner. To the extent that this caused a gap it was because these processes were not being enforced by line managers.

5.6 **Barbara Scott** asked what differentiated areas that used this process well and those which did not. **Alix Langley** replied that areas where line managers took their people management responsibilities seriously were more effective at using the system. There was also a difference based on the type of work staff did: it was easy to identify when staff who had to be on the estate were sick, while more senior desk-based staff sometimes "worked from home" when they were actually off sick. **Barbara Scott** enquired how HR was increasing managers' skill levels in the weaker parts of the House Service. **Alix Langley** said this was part of DHRC's overall offer to the House Service through the Leading for Parliament programme, and HR advice. There was a need to manage more effectively those absences of which managers were aware.

5.7   **Stephen Brooker** requested clarification on the proportionality issue and whether it was management's view that the solution was too expensive or that it would not address the problem identified. **Andrew Walker** said that he was not confident it would address the problem as the staff who would need to send in the weekly returns were the ones who were currently not submitting self-certifications. He also thought that weekly returns would make only a marginal difference to the accuracy of the data.

5.8   **Barbara Scott** asked whether the current review of the structure of the HR department provided an opportunity to design a system from scratch rather than amend the current system. Andrew Walker said that was what his Department was doing. **Barbara Scott** noted that HR needed to act as a custodian of this information for the House; **Andrew Walker** agreed.

5.9   **Paul Dillon-Robinson** said that a system where managers recorded sickness made sense; Internal Audit's challenge was on the completeness of the current data. When a person was sick that should be recorded straight away and then validated when the certificate was submitted. Under the current system a record was made on HAIS when the certificate was received by HR; but in many cases the self-certification was missing so it was not clear what the prompt was for recording the absence on HAIS. A positive return would ensure that managers provided an assurance that the record of sickness in their team was correct. Internal Audit accepted that their recommendations had cost implications but in their professional judgement the current information was not complete and that was reflected in the assurance level provided. **Alex Langley** said that both sides were now talking about reaching the same end point.

5.10   The **Chair** noted that the House had a duty of care to its employees and if absence was not identified and followed up on the first day of the absence then it would not meet that duty. Andrew Walker said that the House had a good record in that area and there was a culture of staff looking out for each other.

5.11   **Sir Robert Rogers** said that he saw the arguments on both sides of the FTE versus headcount issue. What was important was that there was robust comparative material so that the House was comparing like with like. As owner of Board risk 5 on staff morale he took seriously the importance of house wide data on staffing issues. **Andrew Walker** noted that the House was not in control of the quality of external benchmarks

5.12   The **Chair** asked how this work would be taken forward. **Andrew Walker** replied that an action plan would be agreed by the end of the year. The HAIS system would be upgraded in January/February next year and he would now bid for the money to get the self-reporting of absence added. ***Action: Andrew***

Walker to provide the Committee with a copy of the action plan together the with evidence base behind the decision that had been taken. The Committee would consider the report at its meeting on 15 January.

6. NAO Management Letter – House of Commons Accounts

6.1 **Bryan Ingleby** explained that the letter brought together all the NAO observations from the whole audit cycle and the wider work that that NAO had done with the House. The overall context was good, there was a clear drive for improvement in the House's financial systems and the introduction of the business partner model had the potential to realise significant benefits. HAIS had provided the House Service with the tools it needed to run a robust financial process, the next challenge was to change staff behaviours.

6.2 The NAO had previously identified problems with payroll data quality that had required the NAO to change their audit approach. An improvement plan was being produced which should address the problems identified. **Myfanwy Barrett** noted that the Committee had been provided with a supplementary note on the improvement plan. An action plan would be agreed by mid-November and interaction between the different teams in the process had improved over the last three months.

6.3 **Bryan Ingleby** said that the NAO findings on financial management noted that the delegated model did introduce challenges, and the management letter raised some detailed points about the Purchase Orders and how to use the current system to facilitate a time monthly budget outturn process. **Myfanwy Barrett** said that a key theme in the financial management improvement plan was to improve management information and forecasting and the House was already benefitting from the new approach being taken by the recently appointed Head of Management Accounting.

6.4 **Bryan Ingleby** encouraged the House to improve the information flow between the Department of Finance and the rest of the business as a few payments that could have had an impact on the accounts had not been reported. **Paul Dillon-Robinson** said that the responses to the question about contingent liabilities in last year's letter of assurance process showed there was a need to improve departments' understanding of these issues.

6.5 The management letter raised issues about the sharing arrangements with the Lords; the current review should be able to identify a way to simplify the system as currently the VAT treatment of these arrangements was a significant source of delay. **Myfanwy Barrett** confirmed that simplification was one of the main objectives of the review.

6.8 **Bryan Ingleby** suggested that the House should move away from five yearly dilapidation reviews towards a risk-based approach focused on the likelihood of a building changing its usage.

7. A.O.B

7.1 **Sir Robert Rogers** informed the Committee that the House Service would probably be taking responsibility for supporting the Intelligence and Security Committee (ISC); this could involve adding an additional accounting officer to the Administration Estimate who would be in a position to account for spending by the ISC.

7.2 The Chair informed the Committee of her intention to ask the Committee to agree an annual work plan at its review of effectiveness and invited Members to contact her offline with suggestions for agenda items. ***Action: Committee Secretary*** *to circulate the previous Committee work programme.*