

Administration Estimate Audit Committee Annual Report 2009/10

Introduction

1. This is the tenth 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. The Committee was established on the recommendation of the 1999 Braithwaite review of the House of Commons Service. During 2007 Sir Kevin Tebbit KCB CMG led a further review of the management and services of the House of Commons on behalf of the House of Commons Commission, and recommended that the AEAC should be chaired by "a suitably qualified external member". That recommendation was implemented in June 2010.
3. This report sets out the activities of the AEAC in relation to audit and assurance of the Administration Estimate during the financial year 2009/10. Details of the membership, meetings and terms of reference of the Committee are included as an appendix.

Internal Audit

Internal Audit work and partnership

4. The Committee routinely receives an oral report at its meetings from the Director of Internal Audit (IA), supplemented by 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. In 2009/10 all management responses to audits were received within the three month deadline agreed by the Committee.
5. During 2009/10 the Committee has monitored progress against IA's target of 70% of staff time to be spent on audit work. It has noted that the audit team as a whole spent an average of 77% of their time on audit work, with the Principal Auditor and Review Manager respectively achieving 95% and 90%.

6. The Committee has noted with approval the efforts of IA to increase the value it adds to the House Service. Initiatives have included a specific Value for Money review of Learning and Development, as well as focused work on project and contract management. Potential savings have been identified in specific areas including newspapers and late night transport.

7. During 2009/10 the contract for the IA strategic partner was re-tendered; the Committee agreed that Deloitte should be appointed and they began work on 1 October 2009. Under the new contract increased emphasis has been placed on focused use of the specialist skills of the strategic partner.

8. The only change in the staffing of IA during 2009/10 was the recruitment of a new administrator/trainee early in 2009/10. The two IA trainees have progressed with their professional studies.

Internal audits considered by the Committee

9. During 2009/10 the Committee was notified of 17 audits relating to the Administration Estimate at its four meetings, including 7 audits which were delivered up to the end of the previous financial year but after the Committee's final meeting in 2008/09. 12 audit reports were received by the Committee after its final meeting of 2009/10 and will be considered at its July meeting.

10. 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 17 reports considered by the external members during the year, 6 were considered by the external members only, 8 were circulated in whole or part to the Committee as take note items, and three audits were discussed by the Committee as a whole.

11. Audits discussed by the Committee dealt with a wide range of topics. An audit of financial controls found that although frameworks were generally appropriate, some controls, such as those relating to overtime payments, were not always applied as rigorously as they should be. A number of audits were concerned with corporate issues such as risk and performance management. These were found to have evolved over the course of the year at Management Board level, but to have shown more

mixed progress at Departmental level. Overall the Committee has been concerned at some of the shortcomings in procedures identified by the audits it has considered during the year, but has been satisfied that appropriate management actions have been identified to address them. It will continue to monitor the level of implementation of agreed management actions as a result of audit reviews.

12. The Committee has ongoing concerns arising from the findings of audits of control issues within the Parliamentary Estates Directorate (PED). Improvements have been noted but issues still remain and the Committee is concerned that some have not been taken forward with sufficient urgency. Management have given assurances around the improvements in controls and the focus of audit work in 2010/11 will continue until these issues are seen to be addressed. The Committee will continue its watching brief over the issues in this area, as well as procurement practice across the rest of the House.

13. The Committee considered the first value for money audit undertaken by IA, on Learning and Development, which found that significant opportunities existed for greater economy, efficiency and effectiveness in delivering this area. In addition to the management actions identified, the Committee expects that the findings of this review will be taken into account as part of the House's savings programme during 2010/11.

14. 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 Interior Design and Furnishings.

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

Internal audit charter

16. 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 agreed in April 2009 and is due to be reviewed annually by the Committee. The Committee is satisfied that the scope and nature of the work of IA, supported by its partnership with Deloitte, 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.

Planning of the audit programme

17. The IA programme for 2009/10 was discussed by the Committee in April 2009 and finalised by correspondence thereafter. Over the course of the financial year, the Committee has noted with approval IA's focus on delivery, both in delivering the agreed audit programme and in timeliness of reporting. The programme for 2009/10 was revised in the year to take into account the use of IA staff in Sir Thomas Legg's review of ACA payments, given the priority of this work. Items deferred were not felt to impinge on the ability of the Head of Internal Audit to deliver his annual opinion in time for the Statement on Internal Control.

18. In January 2010 the Committee held a discussion of a draft work programme for IA during 2010/11. This was agreed at the AEAC's March meeting. The programme is moving towards a more risk-based approach, with priorities determined through discussions with managers. As recommended by the Tebbit review, the programme includes value for money reviews to be undertaken in conjunction with the NAO and the strategic partner.

External audit

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

20. 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 July 2010 prior to being signed off by the Clerk of the House, as Accounting Officer. The main audit risks identified by the NAO related to non-current assets, the Revaluation Reserve and employee leave accrual. Amongst the issues noted by the Committee were changes in the valuation of the Estate, which had led to a supplementary estimate, and changes in pension liabilities. The Committee was keen to ensure that the reasons for these adjustments were fully explained in the management commentary to the accounts.

21. The Committee received a report from the NAO on the implementation of the new International Financial Reporting Standards (IFRS) and an audit completion memorandum for 2009/10. It also discussed the NAO's planned approach to auditing the House of Commons Resource Accounts 2009/10.

Risk Management

22. The Committee continued to fulfil its responsibility to monitor the management of risk. An internal audit of risk management in the House Service completed early in 2009/10 found that although progress had been made in improving risk management, there was some way to go before the House Service could be considered as managing its risks effectively. The Committee considered an interim management response to the audit in July 2009. Management had accepted the audit's critique of the House's risk management and almost all its recommendations. The Committee was keen to see these implemented as soon as possible.

23. In October 2009 the Committee considered an outline project plan addressing the recommendations of the audit. In January 2010 it received an update on the progress of the project and considered the corporate risk register. In March 2010 the Committee considered the management of the risk of fraud. The Committee will continue to monitor the progress of the project, to assess whether the risk management system is generating the benefit for management which it should.

24. The Committee invited a senior manager to three of its four regular meetings to discuss how they managed risk in their area and how their risks were linked to corporate risks. The Committee has found the dialogue it has had with these managers informative and helpful in allowing it to monitor the management of risk across the House. The Committee also invited Robert Rogers, Director General of the Department for Chamber and Committee Services and Board Member responsible for Business Continuity and Disaster Recovery (BCDR), to update the Committee on the House's BCDR plans.

House of Lords Audit Committee

25. The Committee continues to share agendas and minutes with the House of Lords Audit Committee. The external members of the two Committees held an informal meeting in January 2010 to discuss matters of interest and concern. The Committee has noted with approval the efforts made by IA to increase planning and communication with colleagues in the House of Lords, including regular communication with the Lords Director of Internal Audit.

26. In March 2010 the Committee held a joint informal meeting with the House of Lords Audit Committee. Senior staff from both Houses with responsibility for the delivery of shared services updated the Committees on the governance arrangements in the areas of security, estates and ICT. The Committees agreed to hold a further joint meeting in January 2011 to consider the results of internal audits of shared services and assess the extent to which this joint consideration added value to the activities of the individual committees.

Conclusion

27. The Committee has noted the "moderate" assurance given by the Director of Internal Audit to the Accounting Officer that the House's framework of governance, risk management and control is adequate and effective. Based on the internal and external audit work which the Committee has seen and its wider knowledge of the House's activities, we

consider this to be a fair assessment. As noted in the body of this report, the audit work which we have considered has shown that controls are not always fully effective and, as a consequence, the House is exposed to some degree of risk. Over the coming year we plan to monitor closely the implementation of the management action plans developed to address the failures and risks identified through audit work in the year 2009/10.

Appendix

Membership

1. 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.
2. 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 Commission in April 2009.
3. After the end of the 2009/10 financial year there were further changes in the membership of the Committee. Following the General Election held on 6 May and Sir George's subsequent appointment as Leader of the House of Commons, the Commission decided on 21 June 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.

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

5. 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.

6. 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

7. The Committee met four times in the financial year 2009/10. In addition it held an informal "away morning" on 24 September 2009 and a joint informal meeting with the House of Lords Audit Committee on 17 March 2010.

8. The external members of the Committee also held an informal meeting with their counterparts in the House of Lords in January 2010, and meetings with the NAO and Internal Audit (IA).

Information about the Committee

9. The Committee has a page on the parliamentary website on which are published its membership, terms of reference and annual reports. Minutes of meetings from January 2005 are also published online.

Members Estimate Audit Committee

10. 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 2009/10*.

Terms of reference

11. The Committee's terms of reference during 2009/10 are shown below. A review of the terms of reference was undertaken in the course of the year and a revised version is expected to be agreed later in 2010.

On behalf of the Commission to:

- have general oversight of the work of internal audit and review, with particular emphasis on promoting economy, efficiency and effectiveness, on value-for-money studies, and on risk assessment and control assurance;
- receive and consider reports from Internal Audit (IA), together with management letters and other external audit material;
- monitor and review the external auditor's independence, objectivity and effectiveness, and to make recommendations to the Commission 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;
- encourage best financial practice, use of resources and governance in the House administration; and
- report annually, the report to be published with the Commission's Annual Report.