

Administration Estimate Audit Committee Annual Report 2013/14

Introduction

1. This is the fourteenth annual report of the House of Commons Administration Estimate Audit Committee (AEAC), which was established by the House of Commons Commission on 15 May 2000.
2. This report outlines the AEAC's conclusions in relation to the Administration Estimate for the financial year 2013/14. The Committee's findings are set out by reference to the key areas on which it is required to provide assurance to the Accounting Officer under its terms of reference.
3. Details of the AEAC's terms of reference, membership and activity during the year are provided in the Appendix to this report.

Conclusion for the financial year 2013/14

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

Main Conclusion

4. During the last twelve months further progress has been made improving the system of internal control. There have been marked improvements in financial discipline and awareness across the House Service with the most notable achievement being the successful completion of the Savings Programme. We are also pleased to note the trend towards more timely compliance with agreed management actions from internal audit reviews. These improvements have all been delivered whilst the House Service has continued to provide high quality frontline services. However, these improvements have not been consistent or uniform across the Service and there remains a need to ensure that all its activity achieves value of money for the taxpayer. The House Service will need to build and expand on the improvements it has made this year if it is to be well placed to meet the number of internal and external challenges for the House Service which lie ahead.
5. We note the Director of Internal Audit's overall opinion on the House's framework of governance, risk management and control for 2013/14 which remains at a "Moderate" level of assurance, a view with which we concur, given the number and nature of findings that have arisen from his work.
6. During the last year the House Service has demonstrated that it has the capability to deliver change, but truly sustainable organisational change will require

a greater emphasis on enhancing its managerial and leadership skills to ensure that its intended outcomes are delivered on time, on budget and to the desired quality. This will require greater proactivity on the part of the House Service, more rigorous and stretching use of benchmarks and a greater willingness to learn from failure and adapt to unforeseen events.

Supporting evidence

7. The House's financial management capacity continues to improve, but the weaknesses we highlighted last year, concerning financial forecasting and the House's accounting system – HAIS - are still present. The forecasting of the Estates Capital expenditure, in particular, is an ongoing issue in which we have taken a particular interest, due to past and projected underspends. A review of capital forecasting has been undertaken and we shall be monitoring the implementation of the review's recommendations in the coming year.
8. We welcome the creation of the Parliamentary Procurement and Commercial Service (PPCS), in anticipation that it will both increase the quality of the two Houses' procurement and commercial activity – ensuring greater compliance and improving the quality of data - and lead to more joint working between the Houses. However its success will depend on having access to the appropriate level of professional procurement expertise and the extent to which it is able to develop high quality, commercially minded, contract management skills in the rest of the House Service. We believe that adopting a specialised approach to contract management would ensure that contracts are properly made, monitored and reviewed and ensure that lessons for improvements are captured and implemented. In addition to these direct benefits it would reduce the amount of costly management time spent dealing with defective contracts.
9. Together with the Lords Audit Committee we have continued our joint scrutiny of the management of the Special Service Agreement with the Metropolitan Police Service. The management of this contract is complex but the Parliamentary Security Director has worked to identify savings and efficiencies within the current contract while taking steps aimed at ensuring that the new contractual arrangement will be in place on time and will be robust and fit for purpose. We will continue to scrutinise developments in relation to this important contract.

10. The risk management system in the House Service has yet to be embraced as an integral part of successful delivery. There is a continuing need for individual managers to take ongoing responsibility for the management of risk, as we identified in last year's report. As a result a complete, accurate and up to date risk management system has yet to be achieved.

11. We have taken an increased interest in HR issues and their management in this past year. The professionalism and enhancement of HR support for the House Service leaders and managers is, in our view, essential if they are to achieve the targets that have been set for them. We are therefore pleased that two new senior appointments – dealing with People Development and HR Services – are being made. We hope that this additional expertise will facilitate the completion of existing initiatives and the implementation of new ones in accordance with best HR practice.

12. During the last year various issues have arisen in relation to the quality of data and the reliability of information available to management. Sometimes these have been due to problems with information systems or inadequate resources. Whatever the reason, we view accurate and complete data to be an essential requirement of an organisation, such as the House Service, and will continue to monitor this topic.

13. Overall, we are satisfied that action is being taken to address agreed actions from the audits we have considered during the year. However, delay by managers in complying in a timely fashion with agreed actions and planned initiatives, in order to deal with more pressing issues, inhibits the achievement of corporate goals. Dealing with this, by encouraging proactivity and discouraging behaviours which impede collective progress will, in our view, make a significant difference to the already high quality of the service which the House Service provides. We therefore welcome the fact that the Management Board has decided to adopt a continuous improvement approach to the running of the House Service, as it grapples with the various challenges which undoubtedly lie ahead.

The integrity of the Annual Accounts

14. We have reviewed the Annual Accounts.

15. We consider the Accounts acceptable for signature by the Accounting Officer. We are satisfied with the Annual Governance Statement and the process undertaken to produce it.

The work of the internal audit service

16. We note that Internal Audit (IA) largely completed its audit plan during the period, meeting its target. We note that the relationship between IA and Deloitte (IA's strategic partner) continues to work well, with Deloitte, in general, providing specialist knowledge in specific areas rather than taking on entire audits.

17. We also welcome the continued close cooperation by Internal Audit with its colleagues in the House of Lords.

18. Overall we are satisfied that the scope and nature of the work of Internal Audit, supported by its partnership with Deloitte, and in parallel with the work of the NAO as the external auditors, adequately underpins the assessment of the Accounting Officer of the system of internal control.

The external audit by the external auditor

19. We are satisfied with the scope and nature of the work of the NAO and believe that the NAO has carried out its external audit work with due independence.

20. We are satisfied that the audit opinion was appropriate.

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

21. No additional matters were referred to the Committee by the Accounting Officer or the Commission in 2013/14.

Appendix – Terms of reference

1. The Committee has the following terms of reference, which are approved by the House of Commons Commission (the last changes were agreed in July 2012):

REMIT

The Administration Estimate Audit Committee pursues its objectives and fulfils its responsibilities on behalf of the Commission and, as it deems appropriate, shall draw any matters arising within these terms of reference to the attention of the Commission.

MEMBERSHIP

The membership of the Committee shall be:

- 3 MP members, including:
 - A Member of the House of Commons Commission
 - A Member of the Finance & Services Committee
- 3 External Members, appointed by the Commission

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

OBJECTIVES

The Audit Committee has been established to support the Accounting Officer in discharging his responsibilities under the Administration Estimate, particularly with regard to the maintenance of an effective system of internal control. The Committee's objective is to give assurance to the Accounting Officer on:

- The effectiveness of the system of governance, risk management and internal control (referred to collectively as the "system of internal control")
- The integrity of the annual Resource Accounts
- The work of the internal audit service
- The external audit by the external auditor

Other matters as may be referred to it by either the Accounting Officer or the Commission

RESPONSIBILITIES

Governance, Risk Management and Internal Control

The Committee is responsible for monitoring governance, risk management and internal control ("the system of internal control"). This monitoring will include:

- The effectiveness of the design and operation of the system of internal control
- The development and operation of the system of risk management, in accordance with the overall risk management policy
- The level and range of assurances on the management of risks
- The adequacy and implementation of proposed management actions to improve the effectiveness of internal controls

Annual Resource Accounts

The Committee is responsible for reviewing the annual Resource Accounts before their submission to the Accounting Officer. This review to include:

- any significant changes in the accounting policies or treatments
- major financial reporting judgements or estimates
- consistency of the Annual Governance Statement
- resolution of any matters raised by the external auditor
- significant adjustments resulting from the audit by the external auditor

Internal Audit

The Committee is responsible for monitoring the work of the internal audit service. This includes:

- Involvement in the appointment of the Director of Internal Audit and the audit partner
- Agreement to the annual internal audit plan and

monitoring of progress

- Consideration of the results and findings from internal audit work and the adequacy of management responses
- Consideration of the Director of Internal Audit's annual report and opinion

External Audit

The Committee is responsible for monitoring and reviewing the work of the external audit. This review to include:

- Recommendations on the appointment and scope of work of the external auditor
- Consideration of the external audit strategy
- The results of the external audit work, including any reports to those charged with responsibilities for governance, and the adequacy of management responses
- Representations made by management to the external auditor
- Annual review of the external auditor's independence and effectiveness

Membership

1. The Committee is chaired by an external member, Dame Janet Gaymer DBE, who is also an external member of the House of Commons Management Board. Barbara Scott and Stephen Brooker are the other two external members of the Committee. Dame Janet replaced Alex Jablonowski as the Chair of the Committee in September 2013.
2. The current MP members of the Committee are: Ms Angela Eagle MP, Rt Hon Sir Alan Haselhurst MP, and John Thurso MP.
3. The membership of the Members Estimate Audit Committee also reflects these changes.
4. The Clerk of the House, the Director of Finance 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.
5. The Committee's Secretary is the Private Secretary to the Clerk of the House. The Committee is also supported by a Committee Assistant.

Meetings

6. The Committee met formally six times in the financial year 2013/14: on 17 April, 3 and 10 July, and 9 October 2013 and 15 January and 25 March 2014. Attendance is shown in the table below. In addition it held an informal meeting to review its effectiveness on 6 November 2013.

<i>Member</i>	<i>Total number of meetings attended</i>
Dame Janet Gaymer DBE (Chair) <i>from 19 September 2013</i>	3/3
Alex Jablonowski (Chair) <i>until 18 September 2013</i>	3/3
Stephen Brooker	6/6
Angela Eagle MP	0/6
Rt Hon Sir Alan Haselhurst MP	6/6
John Thurso MP	5/6
Barbara Scott	5/6

7. The external members of the Committee also hold a number of informal meetings during the year including one on 19 June to discuss the draft House of Commons Administration Estimate accounts 2014 with the House's finance team and the NAO.

8. The Committee had one meeting in the current financial year before this report was agreed on 2 July 2014.

Internal Audit and partnership

9. The Committee routinely receives an oral report at its meetings from the Director of the Internal Audit service (IA), together with a paper showing progress against the annual work programme and the balance between core audit and the other work undertaken by IA.

10. There was one change of staff in IA during 2013/14, with the recruitment of a new Trainee Auditor. This is a new post created by the restructure undertaken at the end of the 2012/13 financial year.

11. One member of staff has now completed his professional studies with the Chartered Institute of Internal Auditors. All other qualified staff maintained their continuing professional development in the year.

12. During 2013/14 Deloitte continued its role as IA's strategic partner under the terms of the current contract that has been extended until September 2014. Deloitte assisted in ten audits during the year, as well as supporting the team with access to resources and information. Due to the specialist skills required, it supported audits on Financial Control Environments, VAT Accounting, Project & Programme Reporting and Pensions Administration, as well as the ICT specific audits.

Internal audits considered by the Committee

13. During 2013/14 the Committee was notified of forty-nine audits relating to the Administration Estimate, including eighteen audits from the 2012/13 work

programme. 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.

14. Audits discussed by the Committee dealt with a wide range of topics, covering:

- a. Core audit issues such as financial management, procurement and contract management,
- b. Corporate issues, such as risk management, sickness absence reporting, and
- c. Services provided by the House Service.

The Committee also followed-up implementation of agreed management actions.

15. IA also undertakes follow up reviews when an audit has been issued for six months and contains major findings and agreed actions. The Committee received a number of follow-up audits including regular progress updates from monthly tracking by Internal Audit.

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

Risk Management

17. The Committee continued to fulfil its responsibility to monitor the development and operation of the system of risk management, in accordance with the overall risk management policy, and the level and range of assurances on the management of risks.

18. Over the last year it met with the Corporate Risk Management Team to discuss the House Service's system of risk management. The Committee also met with the Chair of the General Election Planning Group to discuss risk management in this programme. Risk management was also discussed at one of the joint meetings with the Lords Audit Committee.

Internal audit charter

19. The Internal Audit service works to the Public Sector Internal Audit Standards professional framework. The House's internal audit charter, sets out the purpose, role, responsibility, status and authority of internal auditing within the House of Commons and outlining the scope of internal audit work.

Planning of the audit programme

20. The Committee agreed the final Internal Audit programme for 2013/14 in July 2013. The Committee agreed proposed changes to the plan in October 2013 and January 2014.

21. The proposed approach to the Internal Audit programme for 2014/15 was considered by the Committee at its March 2014 meeting.

External Auditors

22. 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.

23. In January 2014 the Committee discussed the NAO's planned approach to auditing the House of Commons Resource Accounts 2013/14. The NAO raised two significant risks: Capital Expenditure and the possibility of impairment charges; and business developments including: the outcome of the pay negotiations; the accounting treatments of the network refresh contract; and the transfer of the House of Commons Staff Pension Scheme liability to the Principal Civil Service Pension Scheme

24. The external members of the Committee met NAO and Finance staff on 19 June 2014 to discuss the draft House of Commons: Administration Estimate accounts for 2013/14. Following this the accounts were discussed by the full Committee on 2 July 2014 prior to being signed off by the Clerk of the House, as Accounting Officer.

House of Lords Audit Committee

25. The Committee held joint meetings with the House of Lords Audit Committee in July 2013 and January 2014. The main items considered were the Metropolitan Police Special Service Agreement and the governance of the Restoration and Renewal Programme. The Committee also continues to share agendas and minutes with the House of Lords Audit Committee.

Members Estimate Audit Committee

26. 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 meets concurrently with the AEAC, with each agenda item setting out whether consideration is by the Administration Estimate Audit Committee, the Members Estimate Audit Committee or both. The annual report of the Members Estimate Audit Committee will be published with the House of Commons: Members Estimate Accounts 2013/14.

Further information about the Committee

27. The AEAC publishes annual reports and certain papers (agendas, minutes and actions arising) on its page on the parliamentary website <http://www.parliament.uk/business/committees/committees-a-z/other-committees/administration-estimate-audit/>.