

Administration Estimate Audit Committee Annual Report 2011/12

Introduction

1. This is the twelfth 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 2011/12. 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 AEAC's terms of reference, membership and activity during the year are provided in the Appendix to this report.

Conclusion for the financial year 2011/12

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

4. We note that the Director of Internal Audit's overall opinion on the House's framework of governance, risk management and control for 2011/12 remains a "Moderate" level of assurance, a view with which we concur. While there has been significant progress since our last report, weaknesses in corporate systems have been highlighted in a number of audits. **We recommend** that management accelerates its drive to improve the House's systems of internal control to ensure that a Substantial level of assurance can be given within the next two years. This will require a culture of continuous improvement, in which poor performance, inefficiency and bad value for money are not tolerated, to become embedded at all levels in the organisation, and the pace of change to be speeded up.
5. The Director of Finance is now part way through an improvement programme in Financial Management, and we recognise that significant progress has been made, with a moderate level of assurance given in the most recent Internal Audit report. We support the Director of Finance's plan to secure and embed further improvements, and look forward to these being substantially completed by summer next year.
6. Significant progress has been achieved in putting in place a more consistent and high quality risk management system. The system includes standard risk register formats, which have been adopted and utilised across the House. The annual Internal Audit review supports the design of the system but has some concerns, which we support, on its operational effectiveness, in particular as regards the level of understanding of mitigations/controls and the use of the system to improve the management of risks. We look forward to the improved system being fully implemented in practice by summer next year.
7. We remain concerned about procurement and contract management in the House, although progress has been made in-year under a new Director of Commercial Services. An Improvement Plan has been shared with us but we questioned why the timescale for completion was so long (summer 2013). Progress appears to have been limited by management capacity in some areas. We look forward to the target improvements being substantially completed within the next year.
8. We welcome the developing understanding within the House Service of the risks relating to information security, particularly the growing awareness of cyber threat. However, we note there is more to do to embed improvements in the recording and management of sensitive information assets.
9. We note that business resilience is improving. However, reviews by Internal Audit make it clear that more work is needed to increase staff awareness of their roles and responsibilities in any incident.
10. Overall, we are satisfied that action is being taken to address recommendations in the audits we have considered during the year and we are pleased to note a wide range of improvements being delivered across the House Service. Whilst we recognise the improvements that have been achieved to date as regards financial, procurement and contract management, we note that the improvement programmes on these matters are at this stage only half way through and look forward to these being completed on schedule within the next year.
11. We also note and support the Head of Internal Audit's observations that the working culture which underpins the House's system of internal control is deep-rooted (and therefore slow to change) and that many opportunities remain to improve controls, efficiency, effectiveness and value for money. Some of the improvements made have been somewhat patchy and there is a need to ensure they are implemented fully across the House Service. **We recommend** that continued efforts be made to ensure staff at all levels are focused on continuous improvement to the House's operations and ways of working.

The integrity of the annual Resource Accounts

12. We have reviewed the annual Resource Accounts. We note that the Director of Finance has developed a proposal to transfer the HoC staff pension scheme into the Civil Service Scheme, which would largely eliminate the volatility of costs associated with the scheme and that the Commission has agreed to progress this further. Last year we recommended that the clarity of pensions reporting be improved in future accounts and we are pleased to note that this has been done.

13. We consider the Accounts acceptable for signature by the Accounting Officer. We are satisfied with the Annual Governance Statement.

The work of the Internal Audit service

14. The Committee notes that Internal Audit (IA) completed a large part of its audit plan, but there was some slippage, in part due to delays in management responses to audits, but also through a larger programme of audits than in previous years. Speed of implementation of management actions following audit reports has remained variable and we recommend that management ensures that, except in special circumstances, there is no more than six weeks between the final report being presented by Internal Audit and it being agreed by management. We welcome the Accounting Officer's decision to make actions and progress reports available to all audit sponsors and senior managers on the new Internal Audit Sharepoint site (see Appendix).

15. The Committee notes 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.

16. The Committee also welcomes the continued close cooperation by Internal Audit with its colleagues in the House of Lords Service.

17. 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

18. 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.

19. 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

20. No additional matters were referred to the Committee by the Accounting Officer or the Commission in 2011/12.

APPENDIX

Terms of reference

1. The Committee has the following terms of reference, which are approved by the House of Commons Commission (the last major changes were agreed in December 2010):

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 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, Alex Jablonowski, who is also an external member of the House of Commons Management Board. Mark Clarke and Stephen Brooker are the other two external members of the Committee.
2. The current MP members of the Committee are: Ms Angela Eagle MP, Rt Hon Sir Alan Haselhurst MP, and John Thurso MP. Ms Angela Eagle MP replaced Rt Hon Hilary Benn MP, who served on the Committee until October 2011.
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 also has a Committee Assistant.

Meetings

6. The Committee met five times in the financial year 2011/12: on 27 April 2011, 6 and 13 July 2011, 26 October 2011 and 11 January 2012. Attendance is shown in the table below.

Member	Total number of meetings attended
Alex Jablonowski (Chair)	5/5
Rt Hon Hilary Benn MP	1/3
Ms Angela Eagle MP	2/2
Rt Hon Sir Alan Haselhurst MP	4/5
John Thurso MP	5/5
Stephen Brooker	5/5
Mark Clarke	5/5

7. In addition it held an informal meeting to review its effectiveness on 9 November 2011.
8. The external members of the Committee held informal meetings with the House's finance team and the NAO to discuss the draft House of Commons Administration Estimate accounts on 1 July 2011 and 21 June 2012. They also held individual informal meetings with the Director of Internal Audit, Finance Director, and the NAO's Client Director (Parliament) on 15 September 2011 and on 4 May 2012.
9. The Committee had two meetings in the current financial year before this report was agreed, on 13 June and 4 July 2012.

Internal Audit and partnership

10. The Committee routinely receives an oral report at its meetings from the Director of the Internal Audit (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. In March 2012 the Director launched a new Sharepoint site for audit sponsors and managers. This acts as a central depository for all agreed actions arising from Internal Audit reports, as well as a mechanism to give feedback on audit assignments and track progress against the Internal Audit Plan. The Director uses Sharepoint to issue a monthly written progress report to members of the Committee so that they are also able precisely to track progress with each audit.

11. There was one change of staff in IA during 2011/12, with the retirement of the Audit Review Manager who had over 30 years' service with the House in a variety of roles. IA was subsequently restructured. In April 2012 one of IA's Senior Auditors also left the House. Recruitment is underway and the post is expected to be filled from mid-summer.

12. One member of staff continued his professional studies with the Chartered Institute of Internal Auditors. All qualified staff maintained their continuing professional development in the year.

13. During 2011/12 Deloitte continued its role as IA's strategic partner under the terms of the three year contract approved on 1 October 2009 (now extended for a further year until September 2013). Deloitte assisted in six audits during the year, as well as supporting the team with access to resources and information. Due to the specialist skills required, it took on the EDRMS Technical Assurance Pre-Pilot and Follow-up, as well as the ICT specific audits. It also ran the Financial Management follow-up and a review of Learning and Development.

Internal audits considered by the Committee

14. During 2011/12 the Committee was notified of 35 audits relating to the Administration Estimate, including 18 audits from the 2010/11 programme which were delivered after the end of that financial year. Fifteen further audit reports were received by the Committee after our final meeting of 2011/12 and before this report was published.

15. 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 35 reports considered by the external members during

the year, 25 were considered by the external members only, and ten were discussed by the Committee as a whole.

16. Audits discussed by the Committee dealt with a wide range of topics, covering core audit issues such as financial management, counter fraud, procurement and contract management, and corporate issues, such as risk management, business resilience, SLAs and MoUs for shared services, use of consultants and legal compliance. The Committee also considered a separate paper on the funding and governance of All Party Parliamentary Groups, select committees and delegations to overseas assemblies.

17. 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. The main follow up work was on financial management, capital projects and catering procurement.

18. 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

19. 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.

20. Over the last year it invited a range of heads of department to its meeting to discuss risk management in their area, hearing from John Borley, Director General of Facilities (and Board risk champion), in April 2011, Robert Rogers, the then Director General of Chamber and Committee Services, in July 2011, and Myfanwy Barrett, Director of Finance, in October 2011. It considered a copy of the Corporate Risk Register at every meeting.

21. The Committee has also had regular exchanges about the extent to which risk management is becoming embedded within the organisation, including with the Head of Internal Audit. On 13 June 2012 it had a discussion with the Corporate Risk Management team about the findings of the most recent Internal Audit review on the system of risk management. That discussion was very helpful in informing the Committee's conclusions, as outlined above.

Internal audit charter

22. The Internal Audit service works to the Government Internal Audit Standards professional framework.

23. 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 last formally reviewed by the Committee in January 2011. The external members of the Committee confirmed that it was still relevant in March 2012.

Planning of the audit programme

24. The Committee agreed the final Internal Audit programme for 2011/12 in April 2011, asking the Head of Internal Audit to review the Plan in the autumn in light of the savings programme to ensure it was still relevant. The Head of Internal Audit reported changes as part of his progress report in October 2011. The Committee also agreed a proposed change to the Plan in July 2011.

25. The proposed approach to the Internal Audit programme for 2012/13 was considered by the Committee at its January 2012 meeting.

External Auditors

26. The National Audit Office (NAO) has continued to provide an external audit function for the House of Commons. In September Bryan Ingleby took over from Chris Bedford as Client Director for Parliament. 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.

27. The external members of the Committee met with the NAO and Finance staff on 1 July 2011 to discuss the draft House of Commons: Administration Estimate accounts for 2010/11. Following this the accounts were discussed by the full Committee on 6 July 2011 prior to being signed off by the Clerk of the House, as Accounting Officer.

28. In January 2012 the Committee discussed the NAO's planned approach to auditing the House of Commons Resource Accounts 2012/13. The NAO raised three significant risks: the financial reporting consequences of Accommodation Strategy decisions, in particular the need to recognise liabilities arising from exiting leasehold property; the risk of routine maintenance being reported as capital expenditure; and risks arising from the Clear Line of Sight project. It also identified a number of risk factors – charging of costs for shared services with the House of Lords; upgrade to the new HAIS/Agresso accounting system; and valuation, where appropriate, of heritage assets.

House of Lords Audit Committee

29. The Committee held joint meetings with the House of Lords Audit Committee in July 2011 and January 2012. The main items considered were the Metropolitan Police Service contract and Internal Audit findings related to PICT (joint department for ICT) and the Parliamentary Estates Directorate. The Committees also jointly agreed an Internal Audit reporting protocol.

30. The Committees have agreed that they should meet jointly every six months. Internal audit reports on bicameral services will not be held back until the next joint meeting, but the joint meetings will focus instead on recurrent themes in relevant audits. A further joint meeting is planned for July 2012.

31. The Committee also continues to share agendas and minutes with the House of Lords Audit Committee.

Members Estimate Audit Committee

32. 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 2011/12.

Further information about the Committee

33. 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/>.