

# Administration Estimate Audit Committee Annual Report 2004/05

## Introduction

1. This is the fifth annual report of the House of Commons Administration Estimate Audit Committee, which was established by the House of Commons Commission on 15 May 2000.

## Membership

2. The Committee's membership during the year was:
  - Oliver Heald MP (Chairman);
  - Sir Archy Kirkwood MP;
  - Sir Thomas Legg KCB QC (external member); and
  - Mr David Taylor FCA (external member).
3. The Clerk of the House, the Director of Finance and Administration, the Director of the Internal Review Service and the Secretary of the Board of Management attend meetings, although they may withdraw for specific items at the Committee's, or their own, request. The Committee's secretary is Mark Egan, Private Secretary to the Clerk of the House.

## Terms of Reference

4. The Committee's terms of reference are annexed to this report.

## Meetings

5. The Committee met five times in the financial year 2004/05.

## Information about the Committee

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

## Internal audit

7. The Committee routinely receives an oral report at its meetings from the Director of the Internal Review Service (IRS) on the work of his unit, supplemented by a paper showing progress against the annual work programme and the balance between core audit and other work undertaken by IRS.
8. Following a review of the work required from the House's internal audit function, and options for the provision of internal audit, PricewaterhouseCoopers (PwC) were appointed in October 2004 to work with IRS to enhance the House's internal audit capacity. The appointment was made after a full competitive tendering exercise, in which David Taylor was involved. An 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 approved by the Committee in advance of the procurement process and will be reviewed annually from now on. A representative from PwC now attends meetings of the Committee. Other recommendations arising from that review related to the staffing of IRS and aspects of its working practices. The Committee was kept abreast of progress in implementing these recommendations throughout the year.

9. The Committee has revised its timetable for meetings so that it can consider the IRS programme of work for the forthcoming year in March, alongside a draft report on the work undertaken in the current year. The Committee remains satisfied that the scope and nature of the work of IRS adequately underpins the assessment of the Accounting Officer on the system of internal control.
10. The IRS work programme for 2005/06 was drawn up in accordance with the risk-based internal audit strategy approved by the Committee at its April 2004 meeting.

### **External audit**

11. National Audit Office (NAO) staff routinely attend meetings of the Committee and receive all of its papers and minutes, although the Committee continues to meet from time to time without auditors present.
12. The external members of the Committee met with NAO and Department of Finance and Administration staff on 14 October to discuss the draft House of Commons: Administration Accounts for 2003/04, following which the accounts were discussed by the full Committee prior to being signed off by the Clerk of the House, as Accounting Officer. Amongst the issues raised by the Committee were the impact of new guidance on the treatment of pension provision; investment properties; the ownership of the freehold of the Palace of Westminster; and arrangements governing disbursements from the Commission reserve.
13. The Committee also received an audit completion memorandum for 2003/04 and an audit strategy memorandum for 2004/05 from the National Audit Office. It agreed that the House should seek to bring forward the date by which the 2004/05 accounts are signed off to September 2005, in pursuance of the Treasury's ultimate aim to have all public sector resource accounts completed by July. It also concurred with the decision that the House should keep in step with Treasury guidance by following the new standard format for resource accounts.

### **House of Lords Audit Committee**

14. The Committee continues to share agendas and minutes with the House of Lords Audit Committee. Opportunities for a joint meeting of the two Committees, to discuss areas of mutual interest such as expenditure on security and works, are being explored.

### **Other areas of work**

15. Risk management was again one of the Committee's main areas of interest. A report from IRS on the House's arrangements for risk management, and a management response, were discussed in April 2004. One area of concern identified by IRS was whether arrangements for managing the House's high-level corporate risks were adequately reflected in departmental business plans. The Committee was briefed on public sector risk management and recent changes to the House's risk management arrangements in January 2005. The Committee intends to return to this issue later in the year, once departmental business plans are available.
16. The Committee was briefed on issues relating to security expenditure.
17. The Committee considered a value for money study of contract management, and a response agreed by the Board of Management, in March. It also discussed arrangements for reviewing the efficiency of the House Service, in light of the Gershon review of the efficiency of Government departments.
18. IRS 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. Eight reports, all but

one relating to the modular audit of the House's new core financial system, were considered in this way in 2004/05, as was a report relating to the House Administrative Information System which was undertaken by external consultants. One IRS report, on the management of attendance and sickness absence, was discussed by the full Committee in January.

19. Papers on the operation of the House's Central Procurement Office, transfer pricing and the implementation of a value for money study of furnishings were circulated to the Committee.
20. Following a request from the Commission, the external members commented on the Board of Management's proposal to reform the governance of parliamentary IS/IT. The proposal, for the creation of a joint IS/IT service serving both Houses, was subsequently agreed and is now being implemented.

### **Members Estimate Audit Committee**

21. 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 (AEAC) 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 Accounts 2004/05 in the autumn.

### **Annex**

The Committee's current terms of reference are shown below:

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 the Internal Review Service (IRS), 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; and
- advise the Accounting Officer in the exercise of his responsibilities;
- consider and recommend to the Accounting Officer the internal review programme;
- encourage best financial practice, use of resources and governance in the House administration;
- report annually, the report to be published with the Commission's Annual Report.