

# Administration Estimate Audit Committee Annual Report for 2006/07

## Introduction

1. This is the seventh 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. During 2006/07 the Rt. Hon Theresa May MP has served as Chairman of the Committee, and Nick Harvey MP as a member of the Committee. There were also two external members of the Committee, Sir Thomas Legg KCB QC and Mr David Taylor FCA.

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. In October 2006 Sir Roger Sands KCB retired from the position of Clerk of the House, and his place was taken by Dr Malcolm Jack.

4. The Committee's secretary is the Private Secretary to the Clerk of the House, Miss Tracey Garratty.

## Terms of Reference

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

6. The Committee was established on the recommendation of the 1999 Braithwaite review of the House of Commons Service. Sir Kevin Tebbit KCB CMG is currently leading a further review on behalf of the House of Commons Commission. In 2007/08 the Committee will consider whether its terms of reference need to be altered in light of Sir Kevin's recommendations.

## Meetings

7. The Committee met three times in the financial year 2006/07.

8. The external members of the Committee also held an informal meeting with their counterparts in the House of Lords.

## Information about the Committee

9. 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 published on-line.

## Internal audit

### Internal Review Service

10. 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.

11. During 2006/07 the Director of IRS has supplemented his oral reports with a written monthly progress report, sent both to Members of the Committee and to stakeholders across the House. These monthly reports have enabled the Committee more precisely to track progress with each audit and to question IRS about the reasons for any delays or postponements. Following the Committee's agreement in 2005/06 that it would consider audits three months after they had been issued for management response, the Secretary to the Committee now follows up with sponsors responses which have not been received shortly before this deadline; in 2006/07 all management responses to audits have been received within the three month window. The monthly reports also contain benchmarking information on staff time usage: IRS have set a target of 60% of staff time to be spent on audit work. The Committee has monitored progress against the target, and noted that the most senior members of the audit team now spend over 50% of their time on audit work, with the lowest amount of time spent on audit, 16%, being attributable to a member of staff who was recruited primarily to undertake administrative tasks. The Committee will keep IRS' time usage under review in 2007/08.

12. 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 Committee has kept this arrangement under review since its inception, and welcomed the Clerk of the House's announcement at its February meeting that he had instigated a review of the House's internal audit function, including consideration of the partnership arrangement. The Committee looks forward to contributing to this review and discussing its recommendations with the Clerk of the House.

#### **Internal audits considered by the Committee**

13. During 2006/07 the Committee considered eleven audits relating to the Administration Estimate at its three meetings, and a further six audits were delivered up to the end of the financial year and will be considered at the Committee's meeting in April 2007.

14. 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 eleven reports considered by the external members up to the Committee's February meeting five were considered by the external members only, three audits, relating to data protection, HR disciplinary and performance procedures and the general ledger, were circulated in whole or part to the Committee as take note items, and six audits were discussed by the Committee as a whole.

15. Audits discussed by the Committee dealt with a wide range of topics, covering core audit issues such as financial controls, procurement and tendering; compliance audits such as risk assurance; and audits concerned with a number of corporate issues including diversity and internal communications. The Committee discussed a first stage audit which sought to validate pay band structures in the House Service through a desk top review of 32 roles. As this desk top exercise did not produce conclusive results the Committee agreed to instigate a more in-depth second phase review to be carried out in 2007/08.

16. Overall the Committee has been satisfied that management has taken action to address any shortcomings in procedures identified by the audits it has considered during the year. The Committee has had concerns that two audits, on tender evaluation procedures and internal communications, have highlighted a resistance to corporate action and direction in some parts of the House Service, and the Committee has sought assurance from the Clerk of the House that the Board of Management is committed to dealing with this issue. Further information on specific audits is available in the minutes of the Committee's meetings which are available on the Committee's website.

### **Internal audit charter**

17. 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, is reviewed annually by the Committee. The Committee is satisfied that the scope and nature of the work of IRS, supported by its partnership with PwC, and in parallel with the NAO as the external auditors, adequately underpins the assessment of the Accounting Officer on the system of internal control.

### **Planning of the audit programme**

18. For the first time the Committee held a discussion of the work programme for 2007/08 in advance of a draft programme being drawn up by the Director of IRS. The Committee had been concerned at the beginning of 2006/07 at the large number of audits which had been carried forward from the previous year, resulting in delivery of the 2006/07 programme being delayed from the beginning. In 2007/08 the Committee's priority is to ensure that IRS' work programme is achievable whilst still providing the appropriate level of assurance to the Clerk of the House as Accounting Officer.

19. The IRS work programme for 2007/08 will, for the first time, be drawn up on a corporate and functional basis rather than departmentally. It will be approved by the Committee at its April 2007 meeting.

### **External audit**

20. Staff from the National Audit Office (NAO) routinely attend meetings of the Committee and receive all of its papers and minutes, although the Committee continues to discuss certain items of business from time to time without auditors present.

21. The external members of the Committee met with NAO and Department of Finance and Administration staff on 22 June 2006 to discuss the draft House of Commons: Administration Accounts for 2005/06, following which the accounts were discussed by the full Committee on 12 July 2006 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 the introduction of the FRS17 accounting standard; the training programme undertaken to improve staff understanding of the accruals process; and the number of adjusted and unadjusted errors to the accounts, which had increased compared to previous years due to the faster closing of the accounts.

22. The Committee also received an audit completion memorandum for 2005/06 and an audit strategy memorandum for 2006/07 from the NAO.

23. The Committee wishes to congratulate those officials of the House and the NAO who contributed to the House meeting the Treasury's aim that public sector resource accounts for 2005/06 should be completed by July 2006.

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

24. 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 September 2006 to discuss matters of interest and concern. The results of the jointly sponsored audit of the Parliamentary Office of Science and Technology will be a matter of interest to both Committees, and may provide a vehicle for a joint meeting in the coming year.

### **Review of effectiveness**

25. At its February meeting the Committee agreed that it should undertake a self-assessment of its effectiveness, facilitated by the NAO. Self-assessment forms were completed both by Committee members and by those who normally attend the Committee. The results will be analysed and presented to the Committee for discussion early in 2007/08.

### **Other areas of work**

26. Risk management was again one of the Committee's priority areas of interest. A report from IRS on the House's corporate risk management process, and a management response, were discussed in July 2006. The Committee was pleased to note that the Clerk of the House now required a letter of assurance from each Departmental Head that risk in their Department was being mitigated, improving assurance that operational business risk was being managed. Despite this improvement the Committee was concerned that the management response to the audit was generally too defensive, and unwilling to engage in the issues IRS had raised. The Committee suggested, and the Clerk of the House agreed, that IRS should meet with management to discuss these issues and provide a further update to the Committee at its October meeting. This update confirmed that the differences between management and the Internal Review Service had been one of semantics rather than fundamental differences of approach. The further update included information on improvements in project risk management and business continuity and disaster recovery planning. The Board of Management had met to consider its high level risks in July 2006 and had used techniques suggested by IRS to quantify its "risk appetite" in relation to each of the corporate level risks and to consider whether risks should appear on the corporate register or be remitted to one of the Board's second tier groups.

27. In 2007/08 the review of risk management will take place later in the financial year so that it dovetails with the corporate and departmental planning cycle.

28. At its July meeting the Committee discussed the work undertaken by the Finance and Services Committee to monitor expenditure by the House administration with its then Clerk, Mr David Natzler.

29. Papers on the operation of the House's Central Procurement Office were circulated to the Committee.

### **Members Estimate Audit Committee**

30. 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 2006/07 in the summer.

### **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.