

Administration Estimate Audit and Risk Assurance Committee Annual Report 2016-17

Introduction

1. This is the seventeenth annual report of the House of Commons Administration Estimate Audit and Risk Assurance Committee (AEARAC), which was established by the House of Commons Commission on 15 May 2000.
2. This report outlines the AEARAC's conclusions in relation to the Administration Estimate for the financial year 2016-17. 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 AEARAC's terms of reference, membership and activity during the year are provided in the Appendix to this report.

Conclusion for the financial year 2016-17

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

Main Conclusion

4. The financial year 2016-17 has been one mostly of progress but also of inertia. Following the conclusion of the Director General's Review in April 2016 the management and staff of the House of Commons Service have focused on implementing ongoing changes in governance arrangements. The restructuring of the organisational structure of the Service has included the creation of a Board, in addition to the Executive Committee. Emphasis on a long term strategy has underpinned work in various areas, such as customer service, people and ways of working. However, these changes have not been able to cure continuing difficulties in collective decision making which impact on risk. In particular, the continued failure of the two Houses to make a decision in principle on the Restoration and Renewal Programme increases exposure to fire and other risks, such as the adverse consequences of disrupted or delayed project programmes.
5. It has been encouraging to note some areas of improvement, following concerns expressed by the Committee. For example, work on risk management has sought to clarify accountabilities and increase understanding of the role of risk management in the organisation.
6. Some areas of concern, identified in last year's Report, remain. These reflect the ongoing need for an appropriate organisational culture. A follow up review of the work of Internal Audit on compliance culture concluded that compliance had not improved to the level anticipated and that previously identified issues such as inaccurate management information, competing priorities and tone from the top remained. However, the expectation is that the appointment of a Head of Compliance and Policy will lead to beneficial change. The greater importance placed by senior management on the implementation of agreed management actions from previous Internal Audit Reports has been welcome, although a low level of implementation in some areas, such as Safety Management, remains.

7. We note the Director of Internal Audit's overall opinion on the House's framework of governance, risk management and control for 2016-17 as a Limited opinion. This means that the management, control and governance processes in place are generally adequate for the purposes of the House of Commons but there are significant weaknesses in their operation which impair their effectiveness, such that they could be, or could become, inadequate and ineffective. We concur with this view. The Committee has noted a continued failure over, now, six years to improve the pace of improvement. In last year's Report the Committee stated its expectation that early steps would be taken to ensure that future risks to the running of the Service and the House of Commons are assessed and mitigated more effectively than in the past, underpinned by the new leadership structure. As already noted, some important steps have been taken in this respect. However the Committee remains concerned that the pace of improvement may not be sufficient to mitigate the clear and present threats to the well-being of the organisation which the House of Commons Service serves.

Supporting evidence

8. Cyber security and security generally have continued to be a preoccupation of the Committee during the year, building on previous audit work, which has highlighted, for example, the unacceptably high level of risk from cyber attacks given the high status of the House of Commons. Progress on Internal Audit Safety Management recommendations has been slow. Concerns about the statutory oversight of safety requirements have led the Committee to request an audit of all boards and groups which exercise oversight functions during the next financial year. A Review of Fire Safety highlighted a number of ongoing risks. Incidents such as the murder of Jo Cox MP in June 2016 and the terrorist attack on 22 March 2017 have underlined the importance of work on security generally, which is ongoing.

9. Third party management, through procurement and contract management is a critical and continuing challenge. The establishment of the Parliamentary and Procurement Service has resulted in improved compliance but issues relating to value for money and day to day contract management will require further monitoring.

10. Internal Audit work by both the House of Commons and House of Lords reinforced questions raised in previous years about aspects of project and programme management. These included questions about the reasons for a significant underspend on the capital estimate, project governance, budgetary control and post project evaluation. The creation of the Enterprise Portfolio Management Office, Strategic Estates Portfolio Management Office and Digital Portfolio Office evidence management's resolve to address these long standing sources of concern.

11. A number of reviews during the current and previous financial years have highlighted a need to improve the quality of data in information systems, such as when reporting sickness absence or in delivering learning and development.

The integrity of the Annual Accounts

12. We have reviewed the Annual Accounts.

13. 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

14. 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 continues to work well, with Deloitte, in general, providing specialist knowledge in specific areas rather than taking on entire audits.
15. We also welcome the continued close cooperation by Internal Audit with its colleagues in the House of Lords.
16. 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

17. We are satisfied with the scope and nature of the work of the NAO and believe that the NAO carried out its external audit work with due independence. We are satisfied that the unadjusted misstatements reported therein do not require adjustment. These errors, together with the recommendation contained within the audit completion report do not highlight any substantive weakness in financial control.
18. We have noted the contents of the letter of representation, which is standard, including the required disclosures on fraud and regularity and the additional disclosure on 39 Victoria Street.
19. We are satisfied that the audit opinion was appropriate.

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

20. In December 2015 the Accounting Officer had asked the Chair of the Committee to review the process by which the House Service had acquired the leasehold on a property as part of planning for the Northern Estate Programme. The Committee considered the results of this review and concluded that the original decision to lease the property was made in good faith and after the necessary processes but that security advice could have been more effectively used.

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 March 2017):

REMIT

The Administration Estimate Audit and Risk Assurance 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 Committee
- 3 external Members, appointed by the Commission

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

QUORUM

The quorum of the Committee shall be 3, including 1 MP and 1 external member.

OBJECTIVES

The Committee supports 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 also provides assurance to the Accounting Officer and the Commission that risk is being managed effectively by the organisation. 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 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 reviewing governance, risk management and internal control ("the system of internal control"). This reviewing 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 Accounts

The Committee is responsible for reviewing the Annual 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

2. The Committee is chaired by an external member, Dame Janet Gaymer DBE, who is also an external member of the House of Commons Commission. Barbara Scott and Stephen Brooker were the other two external members of the Committee at the start of the financial year. Barbara Scott's term of office ended on 31 December 2016; Jane McCall was appointed to the Committee on 2 February 2016, and is also a member of the House of Commons Commission. Stephen Brooker's term of office ended on 31 July 2016. Robert Scruton was appointed to the Committee in his place with effect from 1 August 2016. The MP members of the Committee until 31 October 2016 were Sir Paul Beresford MP, Tom Brake MP and Rt

Hon Nick Brown MP. Thereafter the Rt Hon Nick Brown was succeeded by the Rt Hon Dame Rosie Winterton. Membership of the AEARAC is the same as that of the Members Estimate Audit Committee.

3. The Clerk of the House, The Director General of the House of Commons, the Director of Finance, the Director of Internal Audit and officials from the National Audit Office also attend the Committee's meetings. These officials may withdraw for specific items at the Committee's, or their own, request.
4. The Committee's Secretary is the Private Secretary to the Clerk of the House. The Committee is also supported by a Committee Assistant.

Meetings

5. The Committee met formally five times in the financial year 2016-17: on 13 April, 6 and 20 July, 19 October 2016 and 24 January 2017. Attendance is shown in the table below.

Member	Total number of meetings attended
Dame Janet Gaymer DBE (Chair)	5/5
Sir Paul Beresford MP	5/5
Tom Brake MP	5/5
Stephen Brooker	3/3
Rt Hon Nick Brown MP	3/3
Jane McCall	5/5
Robert Scruton	2/2
Dame Rosie Winterton	0/2

6. In addition it held an informal joint seminar with the House of Lords Audit Committee to consider audit best practice on 21 March 2017.
7. 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 7 June 2017.

Internal Audit

8. The Committee routinely receives an oral report at its meetings from the Director of the Internal Audit, together with a paper showing progress against the annual work programme, summaries of the main conclusions from completed audit assignments and the balance between core audit and the other work undertaken by Internal Audit.
9. There have been a number of staffing changes to the Internal Audit team. At the start of the financial year the Internal Audit team was comprised of the Director of Internal Audit, two internal auditors and a fast stream annual placement. The Director of Internal Audit was in post throughout the financial year but left the House of Commons Service on 19 May 2017. The two internal auditor positions did not change during the year although one of the auditors is currently acting Director of Internal Audit. The fast stream annual placement is being replaced with a permanent audit trainee.

10. All qualified staff maintained their continuing professional development in the year. The Internal Audit team updated their self-assessment against their professional standards and confirmed that a series of continuous improvements were being addressed.
11. Deloitte, as the Internal Audit external support, assisted in eight audits during the year, as well as supporting the team with access to resources and information and some counter fraud work. Due to the specialist skills required, Deloitte supported audits in such areas as ICT audits, risk management and procurement.

Internal audits considered by the Committee

12. There were 27 audits included on the 2016-17 Internal Audit plan relating to the Administration Estimate. There were a further seven final audit reports presented to the July 2016 committee meeting, relating to the 2015-16 Internal Audit plan.
13. 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 procurement and project management,
 - b. Corporate issues, such as risk management and compliance culture
 - c. Services provided by the House Service.
15. The Committee also followed-up implementation of agreed management actions. The Committee received a number of follow-up audits including regular progress updates from 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. As part of its annual review of its terms of reference, the Committee concluded that it should change its name to the Administration Estimate Audit and Risk Assurance Committee. In addition, since March 2017 the Committee has been providing formal assurance to the Commission and the Accounting Officer that risks are being effectively managed by the organisation and monitored by the Executive Committee. The Board has day to day responsibility for managing risk. In October 2016 the Corporate Risk Management Team attended the Committee to discuss the House Service's system of risk management. The holder of the role of Corporate Risk Management Facilitator will attend future meetings of the 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. This Charter was revised in April 2016 and agreed by the Committee.

Planning of the audit programme

20. The Committee agreed the Internal Audit programme for 2016-17 in April 2016. Changes to the programme are reviewed and agreed by the Committee, as necessary.

External Auditors

21. 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.

22. In January 2017 the Committee discussed the NAO's planned approach to auditing the House of Commons Annual Accounts for 2016-17. Other than the risks required to be presumed under ISA 240, the NAO raised no significant risks.

23. The external members of the Committee met with the NAO and Finance staff on 7 June 2017 to discuss the draft House of Commons Administration Estimate accounts for 2016-17. Following this the accounts were discussed by the full Committee on 5 July 2017 prior to being signed off by the Clerk of the House, as Accounting Officer.

House of Lords Audit Committee

24. The Committee held joint meetings with the House of Lords Audit Committee in July 2016 and January 2017. The main items considered were ongoing governance changes, programmes and projects, including the Restoration and Renewal programme, and security. The Committee also continues to share agendas and minutes with the House of Lords Audit Committee.

Members Estimate Audit Committee

25. 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 and Risk Assurance Committee (AEARAC) and meets at the same time as the AEARAC – each agenda item sets out whether the Committee is considering it in its capacity as the AEARAC, 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 2016-17.

Further information about the Committee

26. The two Audit Committees publish annual reports and certain papers (agendas, minutes and actions arising) on their page on the parliamentary website <http://www.parliament.uk/business/committees/committees-a-z/other-committees/estimate-audit-committees>