

***The HOUSE of  
COMMONS:  
Members***

**Resource Accounts &  
Audit Committee Annual Report**

**2010-11**

***(for the year ended to 31 March 2011)***

Presented to the House of Commons pursuant to section 6(4)  
of the Government Resources and Accounts Act 2000

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**House of Commons:  
Members**

**Resource Accounts**

**2010-11**  
*(for the year ended 31 March 2011)*

## Foreword to the Accounts

As at 31 March 2011

### Scope of the Estimate

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During 2010-11 the Members Estimate remunerated and supported Members of the House of Commons in discharging their duties and responsibilities in the constituency, in Parliament and elsewhere by funding parliamentary salaries and associated pension contributions, reimbursing certain expenses incurred by Members (including travel, office costs, staff and equipment), payment of insurance, central provision of IT equipment, provision of training for Members and their staff, and other associated costs and non-cash items. It also provided financial assistance to Opposition parties to support them in the discharge of their parliamentary or representative functions; and an Exchequer contribution to the Members' Fund.

Following the 2010 General Election responsibility for the administration of Members' salaries, expenses claims, travel and certain other costs transferred to the Independent Parliamentary Standards Authority (IPSA) in accordance with the Parliamentary Standards Act 2009. Although the Members Estimate was reduced for this change prior to being laid, there remained uncertainties about the timing of the General Election and the timetable for the transfer of these activities. It was therefore necessary to adopt a flexible budget to ensure liabilities could be met as they arose.

The Constitutional Reform and Governance Act 2010 provides for Exchequer contributions to the Parliamentary Contributory Pension Fund (PCPF) to transfer to the IPSA at a future date. For 2010-11, funding of the pension scheme remained with the House of Commons Members Estimate.

### Activities

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Until the General Election on 6 May 2010, the Estimate provided for the following services:

- *Members' Parliamentary salaries* paid to all Members who have taken the oath (Ministerial salaries are paid by the relevant Department of State);
- *Staffing Expenditure (SE)* - paid to meet the costs incurred in the provision of staff to help in the performance of parliamentary duties.
- *Administrative and Office Expenditure (AOE)* – paid to cover a range of office and other expenditure, including facilities, equipment, supplies and services for Members and their staff, to the extent that it is not met by other aspects of provision.
- *Personal Additional Accommodation Expenditure (PAAE)* – reimbursed to Members for expenses incurred when staying overnight away from their main home for the purpose of performing their duties. Members with inner London constituencies are not entitled to PAAE, but are paid a London Cost Allowance.
- *Communications Expenditure (CE)* – paid to Members to assist them in proactive communication with their constituents, and used typically to produce newsletters, annual reports and pay for Parliamentary websites. With effect from 1 January 2010 the Members Estimate Committee (MEC) restricted the use of Communications Expenditure to advertisements for surgeries, maintenance of equipment where there was a contractual commitment and technical maintenance of websites.
- *Travel expenses* – paid to reimburse Members and their staff for expenditure incurred when travelling in the pursuit of their official duties. There was also some provision for travel by family members. Although there were no restrictions on the number of journeys Members may undertake within the UK, families and staff were restricted according to the rules laid down in Resolutions of the House;

- *Staff pensions* - provided up to a maximum of 10% of an employee's earnings over the period of employment, but subject to an overriding limit of 10% of Staffing Expenditure for each Member;
- The *general services budget* – paid for the provision of IT equipment for use by Members, communications, training, assistance for Members with disabilities, various insurances and other incidental expenditure.

At the outset of the year each Member was entitled to a salary of £65,738 and were able to draw on Staffing Expenditure of up to £105,265; Administrative and Office Expenditure of £22,930; Personal Additional Accommodation Expenditure of £24,803 and Communications Expenditure of £10,400. With the transfer of responsibility for the payment of salaries and expense claims to the IPSA the amounts charged to the Members Estimate were restricted. Members returned at the General Election were entitled to pro-rata allowances based on the period up to 6 May 2010. Thereafter, the IPSA took on responsibility for claims against the balance of each annual allowance. Members who stood down or were defeated were entitled to receive up to a quarter of the maximum of each annual allowance.

Allowance	Returned Members (amount available £)	Former Members (amount available £)
Staffing Expenditure (SE)	10,382	26,316
Personal Additional Accommodation Expenditure (PAAE)	2,446	6,200
Administrative and Office Expenditure (AOE)	2,262	5,732
Communications Expenditure (CE)	1,026	2,600

While Member salaries were only paid up to the 6 May 2010, the House met Members' staff pay commitments up to the end of May 2010. The IPSA subsequently refunded the House for that proportion of payments covering the period after 6 May (£2.7 million).

The Members Estimate Committee (MEC) agreed that the House should initially meet unavoidable legal or contractual obligations where the period covered by the claim went beyond the date of the General Election. Standing charges on utility invoices covering the period beyond the Election were also met where the invoice was dated prior to the date of the Election. Details of the claims paid were shared with the IPSA to enable them to prevent duplicate payment of the same invoice. The ambit adopted by the IPSA for their Estimate prevented claims worth £37,000 covering the period after the Election from being repaid to the House.

Guidance on the scheme of allowances adopted by the House is provided in the Green Book. Further guidance (Pay and Allowances for Members who leave the House at a General Election -the White Book) was published in March 2010. These arrangements will not apply for subsequent General Elections as responsibility for the winding up of offices will transfer to the IPSA. In accordance with the agreement with the IPSA about transitional arrangements, the House retained responsibility for the following allowances after the General Election in May 2010:

- A *Resettlement Grant* – paid to any Member who leaves the House of Commons at a General Election. The amount of the grant varies according to salary, age and length of service at the time of the dissolution of the House;
- *Winding-up Expenditure* – the allowance is used to meet the costs of any official work undertaken on behalf of a deceased, defeated or retiring Member after the date on which they cease to be a Member of Parliament. A maximum allowance of £42,732 was available following the General Election to each former Member;
- Statutory redundancy payments from central funds, including secretarial redundancy costs, where they met certain conditions.

The following financial commitments remained the responsibility of the House throughout 2010-11:

- *Financial Assistance to Opposition Parties (“Short Money” and “Representative Money”)* is available to help Opposition parties to carry out their parliamentary or representative business. The arrangements for the payment of Short Money between 6 and 10 May when the Coalition Government was formed were determined in accordance with Resolutions of the House;
- *The Members’ Fund* provides for ex-Members and their dependants who find themselves in difficult circumstances. It also pays certain “as of right” benefits. It is funded jointly by a grant from the Estimate and contributions from Members. It is administered by trustees appointed by the House of Commons. The accounts of the Members’ Fund are published separately; copies can be obtained from the House of Commons’ Department of Finance or from the TSO website <http://www.official-documents.gov.uk>;
- Provision of *ICT equipment and supporting services* to Members. There was a major refresh of ICT equipment following the General Election;
- Provision of *training* to Members and their staff;
- *Payroll costs* of Members appointed to undertake specific parliamentary duties (further details are provided at the end of Note 5.1).

## Governance

All monies paid to Members of Parliament through the Estimate are governed by Resolutions of the House. Arrangements for expenses and allowances paid under the Estimate are overseen by the Members Estimate Committee (MEC) which has the same membership as the House of Commons Commission, itself a statutory body.

The functions of the Committee are:

- to codify and keep under review the provisions of the Resolutions of the House relating to expenditure charged to the Members Estimate and to modify those provisions from time to time as the Committee may think necessary or desirable in the interests of clarity, consistency, accountability and effective administration, and conformity with current circumstances;
- to provide advice, when requested by the Speaker, on the application of those provisions in individual cases.
- to carry out the responsibilities conferred on the Speaker by the Resolution of the House of 5 July 2001, in relation to directions as to the application of the provisions of that Resolution, and authorisation of expenditure not otherwise specified in the ambit of the Members Estimate.

The Committee is not empowered to create a new form of charge on the Estimate, or to increase any rate of charge or payment determined by Resolution of the House. A consolidated list of the Resolutions of the House relating to expenditure charged to the Estimate was published by the MEC on 1 April 2009 (HC281).

At the start of the financial year the membership of the MEC was:

The Rt Hon John Bercow MP	Speaker ( <i>Chairman by virtue of office</i> )
The Rt Hon Harriet Harman QC MP	Leader of the House of Commons ( <i>by virtue of office</i> )
The Rt Hon Sir George Young Bt MP	nominated by the Leader of the Opposition

Sir Stuart Bell MP

Nick Harvey MP

The Rt Hon David Maclean MP

The following changes arose during the year:

- |                    |   |
|--------------------|---|
| 20 April 2010:     | The Rt Hon David Maclean MP resigned, not having been nominated as a candidate at the ensuing General Election, and was replaced by Sir Paul Beresford MP on 14 September 2010. |
| 11 May 2010:       | The Rt Hon Sir George Young Bt MP was retained as a member by virtue of his office of Leader of the House, in place of The Rt Hon Harriet Harman QC MP.                         |
| 18 May 2010:       | The Rt Hon Rosie Winterton MP was nominated by the Leader of the Opposition.  |
| 14 September 2010: | John Thurso MP replaced Nick Harvey MP.   |
| 12 October 2010:   | The Rt Hon Hilary Benn MP was nominated by the Leader of the Opposition in place of The Rt Hon Rosie Winterton MP.  |
| 24 November 2010:  | Frank Doran MP replaced Sir Stuart Bell MP.   |

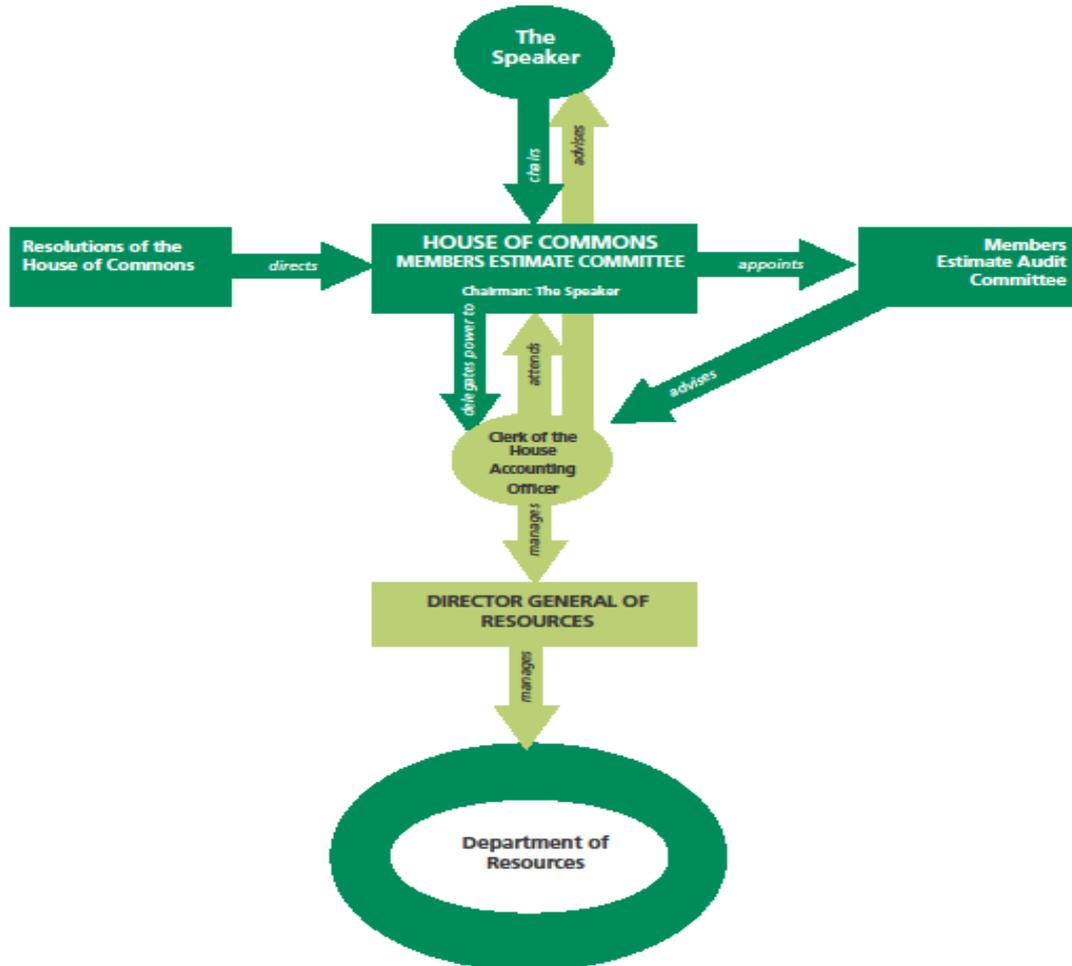
During the year guidance to Members on the scheme of allowances adopted by the House was provided in the Green Book, the most recent version of which was published in July 2009. Although the greater part of the Green Book ceased to apply from 6 May 2010 with the transfer of functions to the IPSA, it remained extant for expenditure areas that continued to be met from the Members Estimate and for stationery provided under the Administration Estimate. The additional requirements arising from the General Election were met by the publication of the White Book issued in March 2010.

The Speaker has appointed the Clerk of the House as Accounting Officer for these accounts. In this role he is advised by the Members Estimate Audit Committee.

There were 646 elected Members of the House as at 1 April 2010. This became 650 from the General Election on 6 May 2010. The House is self-regulating and constitutionally separate from the Government. The House seeks to maintain good practice in all employment and business matters. In particular it is committed to the principles of diversity and equality.

The House of Commons is, or was previously for those functions transferred to the IPSA, committed to the prompt payment of all properly supported Members' claims and third party payments to statutory bodies and external suppliers.

Summary of the Members Estimate governance arrangements:

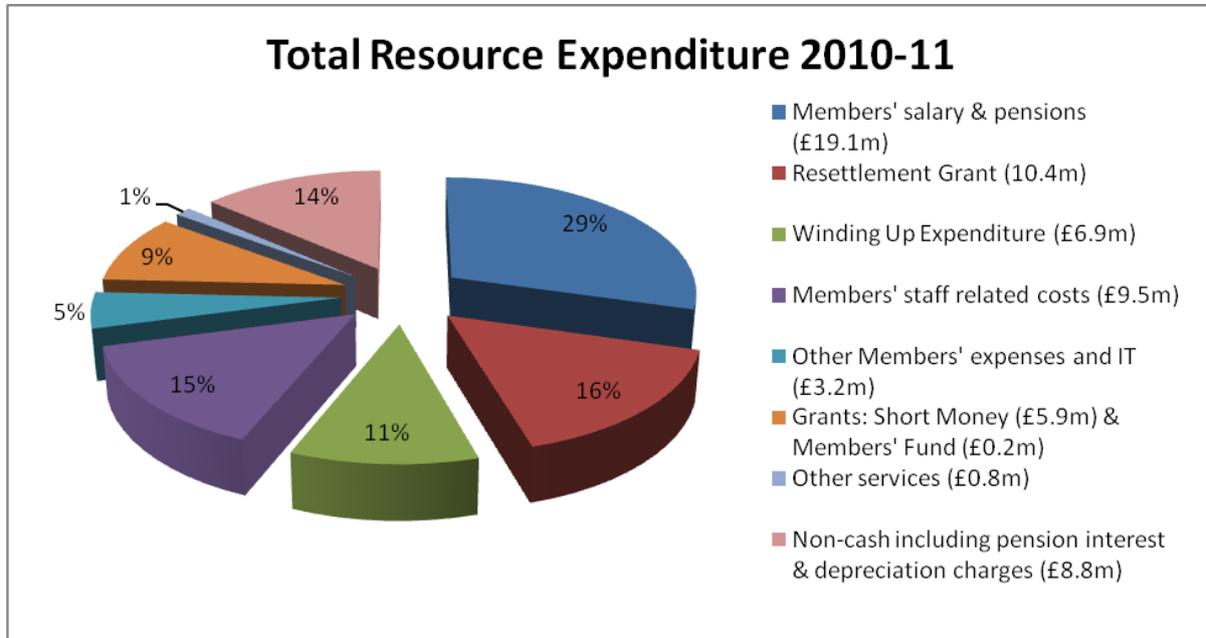


**Management Commentary**

The Statement of Parliamentary Supply shows an outturn of £1.75 million against an Estimate of £85.25 million for the year. This represents an underspend of £83.5 million (97.9%). This has primarily arisen from a technical accounting adjustment of £63 million for pension liabilities which is discussed in greater detail below. Meanwhile the commentary provides an analysis of the financial position in the absence of the adjustment.

Operational activities gave rise to a net resource outturn of £64.75 million against an Estimate of £85.3 million. This represents an unadjusted underspend of £20.5 million (24.0%) for the year. The

outturn for 2009-10 was £166.9 million, but did not include claims related to the General Election such as Winding Up Expenditure and the Resettlement Grant. The outturn for the previous year also represented a full year of operations prior to the setting up of the IPSA and included the cost of capital charge (see Note 1) since abolished. As such it does not represent a comparable year of activities.



The Members Estimate had previously been planned on the basis of historic expenditure trends. However, for 2010-11 the uncertainties around the transitional arrangements for the IPSA, together with the need to ensure that sufficient cash was available to meet commitments at the time of the General Election and afterwards, required the Estimate when laid to be sufficiently flexible to meet the circumstances that eventually arose.

Allowance	Planned £000s	Outturn £000s	Variance £000s
Staffing Expenditure (SE)	6,306	6,470	(164)
Personal Additional Accommodation Expenditure (PAAE)	1,592	190	1,402
Administrative and Office Expenditure (AOE)	1,517	760	757
Communications Expenditure (CE)	226	26	200
Winding up Expenditure	12,782	6,903	5,879
Resettlement Grant	19,430	10,398	9,032
Total	41,853	24,747	17,106

Major contributors to the underspend are Winding Up Expenditure and the Resettlement Grant paid to Members who stood down or were not re-elected at the General Election. At the Election a total of 230 Members were not re-elected, below that planned as a worst case scenario, and the payments claimed were lower than the amounts assumed. The IPSA was also in a position to take over the payment of a revised allowance scheme from the date of the Election. This reduced the cash commitment on the Members Estimate. Final claims against the former allowances scheme were lower than anticipated.

The formation of a coalition government further reduced (£1.8 million) the level of expenditure paid on Financial Assistance to Opposition Parties. Reduced allowance claims and Short Money account for the majority of the unadjusted resource underspend shown.

On 8 July 2010 the Minister for Pensions announced the Government's intention to move to using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure for determining the minimum pension increase to be applied to statutory index-linked retirement benefit schemes. This followed the announcement of the same change for public sector schemes made on 22 June 2010 as part of the Government's emergency budget. Guidance on the presentation of this change in annual accounts was issued on 17 December 2010 (UITF 48) by the Accounting Standards Board. This required a view to be taken on whether the modification represented a change in benefits to pension scheme members, giving rise to an adjustment for past charges against the Estimate, or should be represented by simply amending the liabilities brought forward in the Statement of Financial Position. Following discussions it has been determined the alteration represents a change to benefits which gives rise to a £63.0 million credit to operating expenditure. The impact has been to increase the underspend to £83.5 million and has led to net expenditure of £1.75 million being shown for the year as a whole in the Statement of Parliamentary Supply.

The actuarial review of the Parliamentary Contributory Pension Fund (PCPF) shows the future liability reducing from £226.0 million at the 31 March 2010 to £171.0 million at the date of these accounts. The drop of £55.0 million (24.3%) represents the change to CPI indexation (£63.0 million) plus employer contributions (£14.3 million) less the additional benefits earned during the year after Member contributions (£15.4 million) and finance costs (£6.9 million). The finance costs are comprised of the expected return on assets (£26.6 million) less the interest on the pension scheme liabilities (£33.5 million). A further breakdown and explanation of the PCPF valuation can be found in Note 13.

A refresh of the ICT equipment provided to Members was undertaken immediately after the General Election. This gave rise to capital expenditure of £3.5 million which was £0.5 million below the level planned in the Estimate.

During 2010-11 a net cash outturn of £67.9 million arose against the Estimate of £93.3 million. This represented an underspend of £25.4 million (27.2%), comprised of the cash equivalent of the resource underspend (£21.4 million) together with the reduced capital spend (£0.5 million) and working capital adjustments (£3.5 million).

## Auditors

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The audit of these accounts is undertaken by the Comptroller and Auditor General.

As far as the Accounting Officer is aware, with the exception of the names of those Members whose expenses claims are subject to investigation by the police, there is no relevant audit information of which the auditors are unaware. The Accounting Officer has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

## Going concern

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The Statement of Financial Position at 31 March 2011 shows negative Taxpayers' Equity of £169.7 million, the majority of which is made up of the PCPF liability. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the House of Commons Members Estimate net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from income, are surrendered to the Fund.

The future financing of the liabilities recorded in the Statement of Financial Position will therefore have to be met by future grants of Supply approved annually by Parliament. Approval for those amounts required in 2011-12 has already been given. It is therefore considered appropriate to adopt a going concern basis for the preparation of the 2010-11 financial statements.

With the transfer of responsibilities to the IPSA, consideration was given to the future of the Members Estimate beyond 2010-11. The requirement to account for both the PCPF Exchequer contribution and scheme liabilities in the short-term, together with legislative considerations for some other residual expenditure areas, resulted in the continuation of a Members Estimate in 2011-12.

***Sir Malcolm Jack KCB***  
**Accounting Officer**

**23 September 2011**

## Statement of Accounting Officer's Responsibilities

Although the Members Estimate is laid by a Government Minister as part of the main Supply Estimates, the accountability arrangements rest with the House of Commons and are approved by the Speaker. The Speaker has appointed the Clerk of the House as Accounting Officer for these accounts.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs, the net resource outturn, changes in taxpayers' equity and cash flows for the financial year. Members are responsible for the regularity and propriety of claims submitted.

While it remains important that Members of Parliament take responsibility for the regularity and propriety of their claims, the Accounting Officer also seeks to be satisfied that Members use of the resources claimed under the allowances is regular and proper.

The Accounting Officer is responsible for the House of Commons financial reporting arrangements. He should ensure that the resource accounts:

- observe the relevant accounting and disclosure requirements, and apply suitable applicable accounting policies on a consistent basis;
- include judgements and estimates made on a reasonable basis;
- state whether applicable accounting standards, as set out in the House of Commons financial reporting manual, have been followed, and disclose and explain any material departures in the accounts; and
- have been prepared on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the organisation's assets, are broadly as set out in *Managing Public Money* published by HM Treasury.

## Statement on the System of Internal Control

### Scope of responsibility

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As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of the House of Commons, whilst safeguarding the public funds and assets of the House for which I am personally responsible.

The activities of the House of Commons are funded by two Estimates, the House of Commons Administration Estimate and the House of Commons Members Estimate. The Administration Estimate focuses on the administrative costs of running the House of Commons as an institution, covering the staff costs of the House Service, the maintenance costs of the Estate, the running costs of the Chamber and associated activities, and travel costs of Members and officers undertaking parliamentary business such as select committee work. The focus of the Members Estimate is mainly on Members of Parliament as individual elected representatives. Prior to May 2010, when the Independent Parliamentary Standards Authority (IPSA) took over responsibility for Members' expenses, it provided for Members' remuneration and allowances. Since then the scope of the Estimate has been restricted to covering expenditure on both the Winding Up Expenditure and Resettlement Grant paid to those Members who gave up or lost their seats at the General Election, pension contributions to the PCPF, IT equipment provided to assist Members in their duties, financial assistance to the Opposition parties, an Exchequer contribution to the Members' Fund and other associated costs and non-cash items. This has resulted in the Members Estimate reducing from an outturn of £166.9 million in 2009-10 to an approved Estimate of £23.5 million in 2011-12. I am Accounting Officer for both Estimates and account separately to the House for each. This Statement refers to the Members Estimate.

The governance structure of the House of Commons Members Estimate differs from that of most other public sector Estimates in that it is laid by the Government, but thereafter the governance and accountability are entirely within the House, which is constitutionally separate from the Government. The Members Estimate Committee (MEC) was established by a standing order of the House in 2004 to have responsibility for oversight of the system of Members' expenses, whereas I have responsibility for ensuring that the House's Resolutions are properly put into effect through my role as Chief Executive and Chairman of the Management Board. I am directed by the decisions of the MEC, as advised by the Members' Allowances Committee<sup>1</sup>.

### The purpose of the system of internal control

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The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is designed to ensure that, in line with the Resolutions of the House and the resulting sections of the Green Book that remain relevant following the creation of the IPSA, payments made under the Estimate are valid and correctly accounted for. The Green Book was supplemented by further guidance on Pay and Allowances for Members who leave the House at a General Election (the White Book) issued in March 2010.

A system of internal control has been in place in respect of the Members Estimate for the year ended 31 March 2011 and up to the date of approval of the Accounts. The system evolved during the year to reflect the additional requirements created by the General Election and the setting up of the IPSA. Further details are provided within the Foreword to the accounts.

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<sup>1</sup> The Members' Allowance Committee is an advisory body comprised of Members of Parliament established on 22 January 2009. It replaced the previous Advisory Panel of Members' Allowances, originally set up as the Speaker's Advisory Panel in 2001. It was not nominated in the new Parliament until May 2011.

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## Capacity to handle risk

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The decision of the House in the wake of the expenses disclosures to establish a new, independent body to set and administer Members' expenses meant that planning for the additional requirements arising from a General Election had to be handled alongside the transitional arrangements to transfer certain activities to the IPSA from the date of the General Election. Although the additional workloads alongside the loss of skills arising from the transfer of staff to the IPSA potentially increased operational risks, the advance planning and active risk management put in place was sufficiently robust to ensure internal controls were adequately maintained. The transitional arrangements ensured that Members' salary and expense claims continued to be met on time, with relevant data being shared between the House of Commons and IPSA to avoid duplication of payments and other erroneous transactions.

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## The risk and control framework

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During 2010-11 the framework of rules governing the administration of Members' expenses, for which I was responsible, was drawn from Resolutions of the House of Commons. The MEC had oversight of the allowance system and had the authority to modify the Resolutions relating to expenditure against the Members Estimate.

The scheme of allowances adopted by the House was set out in the Green Book, as supplemented by the White Book to cover the additional requirements arising from the General Election. It was based on the principles that Parliament is sovereign and that Members are primarily responsible for identifying, claiming and certifying their own expenditure. However, Members were required to submit most claims with appropriate supporting evidence.

The governance arrangements for Members' expenses prior to the transfer of administrative arrangement to the IPSA had a number of features which further limited the extent to which I was able to exercise controls:

- The Members' Allowances Committee was responsible for advising the MEC, the Speaker and the Leader of the House, approving practice notes about allowances and determining (subject to appeal to MEC) the application of the rules in individual cases referred to them.
- The House has responsibility for regulating the conduct of its own Members. A Code of Conduct was introduced in 1995, based on the Nolan principles of public life. Enforcement of the Code is the responsibility of the Committee on Standards and Privileges, assisted by the Parliamentary Commissioner for Standards, rather than the Accounting Officer.
- For the purpose of Members' expenses, a clear distinction was necessary between parliamentary and party purposes, to ensure that public money was not used inappropriately for party political ends. Adequate internal controls were in place on most aspects of Members' individual expenditure (for example, shared use of constituency office space for party and parliamentary purposes).
- The controls for financial assistance to Opposition parties ("Short Money" and "Representative Money") differ from other expenditure in that the money provided is used for party political purposes in connection with Parliament and on representative work, but cannot be used for party political campaigning. The use of the money is validated by a CCAB-qualified external auditor. I have taken steps to ensure that audit certificates are available earlier this year.

During 2010-11 further details of Members' expenses claims were released. In February 2011 details of published claims were extended to include 2009-10. This release also included details of transactions for 2010-11. Scans of the remaining associated claim forms were released in June 2011.

A full scope audit was adopted for the 2009-10 accounts for the first time. Work to secure additional supporting documentation from Members to underpin their claims continued through the summer and autumn of 2010, with the result that the Resource Accounts (HC 685) were not laid until 15 December 2010. The Statement on the System of Internal Control that accompanied those accounts therefore covered a number of management issues that arose between the previous year end (i.e. 31 March 2010) and the laying of those accounts. Since then the following progress has been achieved:

*(i) Contingent asset*

The Members Estimate Committee agreed to meet contractual obligations in full as part of the transitional arrangements following the setting up of the IPSA. A management decision was also made to pay smaller claims in their entirety where no clear apportionment existed, with a view to a later decision on whether to seek a recharge, in order to reduce the workload on both organisations and facilitate faster payments to Members during the period immediately after the General Election. This resulted in a £200,000 contingent asset being disclosed in the 2009-10 Members Resource Accounts (Note 17).

The IPSA have concluded that the Parliamentary Standards Act 2009 only allows them to reimburse the House of Commons where payments:

- fall within the ambit of the IPSA Estimate;
- are allowable under the Scheme in force at the time the expenditure was incurred; and
- are evidenced to the required standards.

Given the fundamental differences between the allowance scheme previously adopted by the House and the revised scheme operated by the new independent body, the IPSA concluded that making a repayment to the House is outside the scope of their current Estimate. As these costs have already been accounted for in the main body of the 2009-10 Members Resource Accounts, there is no requirement to account for these costs in the 2010-11 Resource Accounts.

*(ii) Standards and Privileges Committee*

During 2009-10 the Parliamentary Commissioner for Standards had investigated a number of complaints about Members with the recommendation the House should recover £109,000. At 31 March 2010 an amount of £15,000 was recognised as being outstanding, all of which has subsequently been repaid.

*(iii) Legg Review*

At 31 March 2010 a number of repayments arising from the review by Sir Thomas Legg KCB QC of the Additional Costs Allowance (ACA) remained outstanding:

- Current Members - £34,000
- Former Members - £52,000

All of the £34,000 repayments from current Members have now been settled in full. The £52,000 owed by former Members was subsequently reduced to £35,000 on appeal. Repayment agreements for £16,000 are in place against which £3,000 had been repaid by 31 March 2011. Further payments of £14,000 have subsequently been received against the balance of £19,000 reducing the bad debt outstanding to less than £5,000 at 31 August 2011.

*(iv) Inadequately supported Members' claims*

A total of £16,000 was recognised in the 2009-10 Resource Accounts as amounts to be recovered from current Members where payments had been made without adequate supporting evidence. The balance had reduced to £8,000 at 31 March 2011. Subsequent repayments and document supported adjustments had reduced the balance outstanding to less than £3,000 at 31 August 2011. Management action is in hand to resolve this outstanding balance owed by a single Member.

*(v) Cases under investigation*

The 2009-10 Resource Accounts disclosed that a number of Members and former Members were being investigated by the police or had charges brought against them by the Crown Prosecution Service (CPS). Evidence to support payments totalling £1.8 million were not made available to the NAO audit at the time at the request of the police and the CPS. As a consequence the NAO were unable to reach an opinion on the regularity of the payments made to the Members affected.

Three former Members have subsequently been found or pleaded guilty to falsely claiming amounts totalling £65,450 – a total of £70,537 has subsequently been repaid against this amount. A further Member found guilty has been formally declared bankrupt and the House has been listed as one of the creditors for a sum totalling £8,385. The CPS announced on the 6 September that another former Member is to face charges in relation to their parliamentary expenses claims. This case is currently before the courts.

A number of other Members with claims in 2010-11, worth £51,975, continue to be investigated by the Police. All transaction details were made available to the audit and the NAO have been provided with summary details of the amounts under investigation, but with the identities of the individuals anonymised. The NAO have asked to be provided with the names of those individuals who remain under investigation to allow them to reach a view on the completeness of the information provided. This request has been refused by the Clerk of the House on the grounds that prior to a final decision on any referral to the Crown Prosecution Service (CPS) such action would be inappropriate.

**Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control was informed by the advice of the internal auditors and the executive managers within the former Department of Resources who had responsibility for the development and maintenance of the internal control framework, comments made by the external auditors in their management letter and other reports. Given the number of other activities taking place within the Department and the ongoing work of the NAO during the year, it was agreed on management advice that separate internal audit scrutiny of the allowances system would be excessive and not add value. As a result, no formal opinion on the Members Estimate has been provided by the Director of Internal Audit because of the lack of specific internal audit coverage during the year.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Members Estimate Audit Committee (MEAC).

The framework in place at the beginning of the year was based, as noted earlier, on the principle that Members were primarily responsible for identifying, claiming and certifying their own expenditure. The emphasis of this framework was altered significantly by the requirement for further sources of evidence to support a full-scope audit. Although the rules for most of the allowances were consistent with the evidential requirements of the revised audit scope, for some items, such as travel expenditure, the arrangement that Members were primarily responsible for certifying their own expenditure continued. This meant that the level of assurance required by the Green Book has not been sufficient to satisfy the NAO, with the result that the Comptroller and Auditor General has treated such expenditure as unsupported.

The following management action has been undertaken in respect of transactions arising in 2010-11:

*(i) Management of transactions associated with the transfer of activities*

The IPSA has reimbursed the House for all Members' staff costs (i.e. £2.7 million) that were paid during the transition period after the 2010 General Election.

A schedule of claims paid prior to the General Election, which included an element of prepayment (e.g. constituency office leases), was prepared and sent to the IPSA to enable them to identify any potential duplicate claims made, and prevent double payment. These claims amounting to £37,000

comprised 207 transactions by 112 Members. Given the stringent eligibility criteria and evidence required by the IPSA to support a repayment, it has been agreed by management both in the House of Commons and the IPSA that it would not be practical for the House to be reimbursed for these claims. These claims have therefore been scored in the House of Commons Members Resource Accounts with appropriate disclosure.

*(ii) Standards and Privileges Committee*

A recent case involving the recovery of £5,950 was outstanding at 31 March 2011. This has now been paid.

*(iii) Documentary support for claims*

Action to obtain documentation in support of inadequately supported claims continued into 2010-11. In 2009-10 around £0.8 million of expenses claims did not have full supporting documentation and the Green Book did not require documentation to be provided for the remaining £11.3 million of unsupported claims.

	2010-11 £000	2009-10 £000
Evidence to support claims incomplete	144	830
Green Book evidence not required	291	11,300
<b>Total</b>	<b>435</b>	<b>12,130</b>

The equivalent figures for 2010-11 reflect the period of claims up to the date of the General Election. Incomplete documentation on £144,000 of claims primarily covers existing staff contracts and office leases. As such, it represents the residual position from the previous year. As most of these payments were to former Members it is unlikely that further compliance work will result in additional documentation being provided. Claims worth £291,000 were made in accordance with the Green Book requirements that applied under the scheme that was in place before responsibility transferred to IPSA.

*(iv) Short Money and Representative Money*

Opposition parties have agreed to comply voluntarily with criteria laid down by the House for the demarcation of expenditure between qualifying and non-qualifying activities, co-operation with NAO where appropriate, and a tighter timetable for submission of audit certificates.

## Other internal control issues

The former Department of Resources which was primarily responsible for administering expenditure incurred on the Members Estimate ceased to exist from 1 April 2011. On that date two new departments were formed. The Department of HR & Change and the Department of Finance headed by a Finance Director appointed following an open competition. The Department of HR & Change manages disbursements from the Members Estimate on Short Money, Representative Money, training for Members and their staff, insurance, and other incidental matters. The Department of Finance pays the Exchequer contribution to the Members' pension scheme (the PCPF), but the scheme itself continues to be managed by trustees. These changes, together with the additional workloads arising from the General Election and transfer of activities to the IPSA, increased operational risks. These risks have been actively managed throughout the year to ensure that business continuity was maintained and that the two new departments could be launched without interruption to continuing business services.

A number of issues were raised by the Director of Internal Audit's annual report and opinion on the Administration Estimate. This has led to the Administration Estimate Audit Committee highlighting the need for further improvements to be delivered on the operation of financial controls and compliance with agreed policies and procedures. This has relevance to the Members Estimate.

The MEAC's Annual Report further recommends that additional work is carried out to improve the clarity of the narrative on pensions reporting in future accounts, and that management review the wording of the rules governing the payment of Short Money and Representative Money to avoid future confusion in periods immediately after a General Election.

## Conclusion

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This has been a challenging year, and restoring the reputation of the House following the unauthorised disclosure of Member claim details the previous year continues. Responsibility for expenses for new and returned Members was transferred to the IPSA on 7 May 2010, the day after the General Election, although the House retains responsibility for Short Money and some other items which fall under the Members Estimate. The House also paid Winding-up Expenditure and Resettlement Grant to Members who retired or were not returned at the Election. The House worked with the IPSA to ensure that the transition was as smooth as possible, agreeing to pay Members' staff salaries on the IPSA's behalf for the remainder of May. This sum has been refunded to the House. Work has also been carried out to reduce the risk that items might be claimed from both allowance systems.

Follow up work on residual issues pertinent to claims up to the General Election continued throughout the year. With the exception of some ongoing police investigations these have now been resolved. This should allow the House to move on and return to the effective and efficient management of the Members Estimate. During the year the MEC considered whether the residual Members Estimate should be merged with the Administration Estimate given the reduced scope of expenditure being managed. Legal requirements, primarily in respect of the Members' Fund, prevented this being achieved for 2011-12. The Constitutional Reform and Governance Act 2010 provides for the PCPF Exchequer contributions to be accounted for in the IPSA Estimate. Discussions with the independent body are continuing over the possible transfer of this function at a future date.

**Sir Malcolm Jack KCB**  
**Accounting Officer**

**23 September 2011**

## **Independent Auditor's Report to the House of Commons**

I have audited the financial statements of the House of Commons: Members for the year ended 31 March 2011. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the House's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the House; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword, the Statement of Accounting Officer's Responsibilities and the Statement on Internal Control to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Basis of regularity qualification due to withholding of information requested by the auditor**

The financial statements include payments to Members for reimbursement of expenses. Reimbursement is made when expenses meet certain eligibility criteria. During the year the expense claims of a number of Members were referred to the police for further investigation. In order to conclude on the level of irregular payments within this account I requested access to this information, which was withheld by the Clerk of the House. As a result I have been unable to conclude on the level of irregular expenditure in these financial statements. However from the evidence available to me from other sources I am content that, whilst the value of irregular payments may be materially different from that represented to me it is not of such magnitude as to cause me to disclaim my opinion on regularity.

Further details are set out in my report on pages 22 to 23.

### **Qualified Opinion on Regularity**

■ In my opinion, except for any alternative conclusions I may have reached had the Clerk made available the evidence I requested relating to the Members who are under investigation by the police, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

**Opinion on Financial Statements**

In my opinion:

- the financial statements give a true and fair view of the state of the House's affairs as at 31 March 2011 and of its net cash requirement, net resource outturn and net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the House of Commons Financial Reporting Manual.

**Opinion on other matters**

■ In my opinion:

- the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

In respect solely of the information relating to cases under police investigation described above:

- I have not received all of the information and explanations I require for my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- the Statement on Internal Control does not reflect House of Commons application of best practice guidance, including HM Treasury's guidance.

**Amyas C E Morse**  
**Comptroller and Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria, London, SW1W 9SP**

**27 September 2011**

## Report on the 2010-11 Members' Accounts

### The purpose of my report

1. This report explains why I have qualified my regularity opinion on the 2010-11 Members' Accounts. It also follows up on the issues that gave rise to my qualification of the 2009-10 Members' Accounts.

### My obligations as auditor

2. I am required under International Standards on Auditing (UK and Ireland) to obtain evidence to give reasonable assurance that the financial statements are free from material misstatement. I am also required to satisfy myself that, in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by Parliament (regularity).

3. In forming my opinion, I consider whether I have obtained all the information and explanations which I consider necessary for the purposes of my audit.

### Responsibilities of the Accounting Officer

4. The Accounting Officer, the Clerk of the House, is responsible for making available for audit all accounting records and all other relevant records and related information, including access to documents held by third parties. I am also entitled to require from House staff such other information and explanations that I consider necessary for the performance of my duties as auditor.

### Prior year qualified opinion

5. I limited the scope of my regularity opinion on the 2009-10 Members' Account because the evidence available to me was incomplete, and so not sufficient to support an unqualified opinion, in three respects:

- where evidence had not been obtained by the House authorities in accordance with the framework of rules governing the administration of Members' Expenses;
- where evidence with regard to certain Members' expenses was held by the police for investigation and was not, therefore, available for audit purposes: and
- where the evidence obtained by the House authorities, although in accordance with the framework of rules governing the administration of Members' Expenses, was not sufficient to confirm the expenditure had been incurred for Parliamentary purposes.

### Action following the General Election

6. The most significant development to have taken place in 2010-11 has been that, since 7 May 2010, following the General Election, responsibility for the regulation and payment of Members' salaries and expenses was successfully transferred to the Independent Parliamentary Standards Authority (IPSA) as determined by the House of Commons. IPSA's first accounts were published on 6 July 2011 (HC 1249) with an unqualified opinion.

7. The three issues that gave rise to my prior year qualification are, however, also relevant to the 2010-11 Members' Accounts as for a short period prior to the prorogation of Parliament and the General Election the House of Commons continued to be responsible for payments of Members' salaries and expenses. As part of my audit, I have therefore estimated the level of unsupported spend reported in the 2010-11 Members' Accounts. Whilst errors remain for 2010-11, the amounts involved are significantly lower, mainly because the Accounts only include expenditure on Members' salaries and expenses for the period to 6 May 2010. Details are shown in the Statement of Internal Control.

**Missing documentation or where documentation has not been required under the Green Book rules**

8. I have concluded that my opinion on the 2010-11 Members' Accounts should not be qualified for two of the issues that gave rise to my prior year qualification, on the grounds that:

- despite some error persisting until the transfer of responsibility for Members' salaries and expenses to IPSA, I do not consider the level of error, whilst still significant, to be material to the financial statements as a whole; and
- the landscape for the payment and claiming of Members' salaries and expenses has changed radically, not least through publication of all expense claims and the transfer of responsibilities to IPSA.

**Members under investigation by the police**

9. On the third issue, as part of my audit of the 2010-11 Members' Accounts, I requested the Accounting Officer provide information on claims made by Members (past or present) subject to ongoing investigation by the police. Similar information had been provided to me in respect of my 2009-10 audit. While some anonymised information was provided, the Clerk felt unable to provide further details on the grounds that, prior to a final decision on a referral to the Crown Prosecution Service, this would be inappropriate. This is disappointing as I have processes in place which ensure that national security-classified and sensitive information is appropriately handled and remains confidential. However, in this case the Accounting Officer was unwilling to make the necessary information available to me. I am not therefore able to conclude on the amounts, completeness and nature of the information for Members under police investigation and the effect it may have on my regularity opinion. As a result of this imposed limitation on the scope of my work, I have qualified my regularity opinion because I am unable to conclude on the level of irregular expenditure in these financial statements.

**IPSA**

10. Further information on the establishment of IPSA and how it has performed its functions is provided in my report IPSA: the payment of MPs' expenses (HC 1273, dated 7 July 2011).

**Amyas C E Morse**  
**Comptroller and Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria, London, SW1W 9SP**

**27 September 2011**

## Statement of Parliamentary Supply

### Summary of Resource Outturn

for the year ended 31 March 2011

Request for Resources	Estimate			Outturn			Net Total Outturn compared with Estimate: saving/ (excess) <sup>i</sup>	2009-10 Outturn
	Salaries & other costs	Grants	Net Total	Salaries & other costs	Grants	Net Total		
	£000	£000	£000	£000	£000	£000		
Operating costs	77,578	7,672	85,250	58,557	6,193	64,750	20,500	166,940
Pension liabilities adjustment	-	-	-	(63,000)	-	(63,000)	63,000	-
Total resources	77,578	7,672	85,250	(4,443)	6,193	1,750	83,500	166,940
Non-operating cost A in A	-	-	-	-	-	-	-	-

### Net cash requirement 2010-11

	Note	Estimate		Outturn		Net Total Outturn compared with Estimate: saving/(excess) <sup>1</sup>	2009-10 Outturn
		£000	£000	£000	£000		
		Net cash requirement	3	93,250	67,888		

### Summary of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the House and is payable to the Consolidated Fund (cash receipts are shown in italics)

	Note	Forecast 2010-11		Outturn 2010-11	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Total income payable to the Consolidated Fund	4	-	-	(367)	(397)

<sup>1</sup> Explanations of variances between the Estimate and Outturn are given in the Management Commentary (Page 9)

The Notes on pages 30 to 44 form part of these Resource Accounts

**Statement of Comprehensive Net Expenditure**

for the year ended 31 March 2011

	Note	2010-11		2009-10
		Salary & related costs	Other Costs	(restated)
		£000	£000	£000
Members' salaries	5	15,127		47,385
Members' pensions	5	14,340		12,625
Other costs	6		29,090	106,596
Grants to other bodies	6		6,193	7,147
Pension adjustment arising from a change in past service costs	13		(63,000)	
<b>Totals</b>		<b>29,467</b>	<b>(27,717)</b>	
<b>Net Operating Cost</b>				<b>1,750</b>
<b>Other Comprehensive Expenditure</b>				<b>173,753</b>
Net (gain)/loss on pension liabilities due to changes in actuarial assumptions Pension	13			-
<b>Total Comprehensive Expenditure for year ended 31 March 2011</b>				<b>97,953</b>

The figures for 2009-10 have been re-stated to exclude the cost of capital charge of £6.8 million since abolished. A reconciliation to the actual outturn shown in the Statement of Parliamentary Supply is provided in Note 1.

The Notes on pages 30 to 44 form part of these Resource Accounts

**Statement of Financial Position**

as at 31 March 2011

		2010-11	2009-10	2008-09
	Note	£000	£000	£000
<b>Non-current assets:</b>				
Property, plant and equipment	7	2,838	167	564
<b>Total non-current assets</b>		<b>2,838</b>	<b>167</b>	<b>564</b>
<b>Current assets:</b>				
Trade and other receivables	10	195	217	344
Cash and cash equivalents	11	251	577	299
<b>Total current assets</b>		<b>446</b>	<b>794</b>	<b>643</b>
<b>Total Assets</b>		<b>3,284</b>	<b>961</b>	<b>1,207</b>
<b>Current liabilities</b>				
Trade and other payables	12	(2,020)	(10,874)	(12,183)
<b>Total current liabilities</b>		<b>(2,020)</b>	<b>(10,874)</b>	<b>(12,183)</b>
<b>Total assets less net current liabilities</b>		<b>1,264</b>	<b>(9,913)</b>	<b>(10,976)</b>
<b>Non-current liabilities</b>				
Provision for pension liability	13	(170,922)	(225,963)	(142,488)
<b>Total non-current liabilities</b>		<b>(170,922)</b>	<b>(225,963)</b>	<b>(142,488)</b>
<b>Assets less liabilities</b>		<b>(169,658)</b>	<b>(235,876)</b>	<b>(153,464)</b>
<b>Taxpayers' equity:</b>				
General Fund		(169,658)	(235,876)	(153,464)
<b>Total taxpayers' equity</b>		<b>(169,658)</b>	<b>(235,876)</b>	<b>(153,464)</b>

**Sir Malcolm Jack KCB**  
Accounting Officer

**23 September 2011**

The Notes on pages 30 to 44 form part of these Resource Accounts

**Statement of Cash Flows**

for the year ended 31 March 2011

		2010-11	2009-10
			<i>(restated)</i>
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Net operating cost	5,6	(1,750)	(173,753)
Adjustments for non-cash transactions	6	(54,188)	8,517
(Increase)/Decrease in trade and other receivables	10	38	92
Less movements in receivables relating to items not passing through the SCNE		116	36
Increase/(Decrease) in trade payables	12	(8,854)	(1,309)
Less movements in payables not passing through the SCNE		210	(314)
<b>Net cash outflow from operating activities</b>		<b>(64,428)</b>	<b>(166,731)</b>
<b>Cash flows from investing activities</b>			
Purchase of equipment	7	(3,460)	(56)
Purchase of intangible assets	8	-	-
Proceeds of disposal of equipment		-	-
<b>Net cash outflow from investing activities</b>		<b>(3,460)</b>	<b>(56)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		67,575	166,700
From Consolidated Fund (Supply) – prior year		-	-
<b>Net Financing</b>		<b>67,575</b>	<b>166,700</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>(313)</b>	<b>(87)</b>
Receipts due to the Consolidated Fund	4	397	1,610
Payments of amounts due to the Consolidated Fund		(410)	(1,245)
		<b>(13)</b>	<b>365</b>
<b>Net increase/(decrease) in cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(326)</b>	<b>278</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>577</b>	<b>299</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>251</b>	<b>577</b>

The figures for 2009-10 have been re-stated to exclude the cost of capital charge of £6.8 million since abolished. A reconciliation to the actual outturn shown in the Statement of Parliamentary Supply is provided in Note 1.

The Notes on pages 30 to 44 form part of these Resource Accounts

## Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2011

	Note	General Fund £000
<b>Balance at 31 March 2009</b>		<b>(153,464)</b>
<b>Changes in taxpayers' equity for 2009-10</b>		
Net gain/(loss) on pension liabilities due to changes in actuarial assumptions	13	(75,800)
Non-cash charges – auditor's remuneration	6	354
Net operating cost for the year		(173,753)
<b>Total recognised income and expense for 2009-10</b>		<b>(249,199)</b>
Net Parliamentary Funding – drawn down		166,700
Net Parliamentary Funding – deemed		254
Supply payable/(receivable)		(167)
		<b>166,787</b>
<b>Balance at 31 March 2010</b>		<b>(235,876)</b>
<b>Changes in taxpayers' equity for 2010-11</b>		
Net gain/(loss) on pension liabilities due to changes in actuarial assumptions	13	-
Non-cash charges – auditor's remuneration	6	80
Net operating cost for the year		(1,750)
<b>Total recognised income and expense for 2010-11</b>		<b>(1,670)</b>
Net Parliamentary Funding – draw down		67,575
Net Parliamentary Funding – deemed		167
Supply payable/(receivable)		146
		<b>67,888</b>
<b>Balance at 31 March 2011</b>		<b>(169,658)</b>

The Notes on pages 30 to 44 form part of these Resource Accounts

## Notes to the Resource Accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with the House of Commons *Financial Reporting Manual (FReM)*. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the policy which is judged to be most appropriate to give a true and fair view has been selected. The particular policies adopted by the House of Commons are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the House of Commons also prepares an additional Statement of Parliamentary Supply which shows outturn against Estimate in terms of the net resource requirement and the net cash requirement.

The policies of procedure adopted for managing Members' expense claims during 2010-11 are further explained in the Statement on the System of Internal Control.

The 2010-11 Estimate reflected the abolition of the cost of capital charge. This had represented a notional charge on the average value of net assets held over the year using the rate (3.5%) adopted by HM Treasury. Unlike other Estimates this had previously given rise to a negative charge, thereby reducing the overall level of expenditure shown, because the pension liabilities exceeded the asset values held. The comparable figures shown in these accounts for 2009-10 and earlier years, with the exception of the Statement of Parliamentary Supply, have been adjusted for this change.

<b>Statement of Parliamentary Supply</b>	<b>2009-10 £000</b>
Net resource outturn	166,940
Adjustment for cost of capital charge	6,813
Equivalent net resource outturn	<u>173,753</u>

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention rather than the modified historic cost convention (MHCA) used to reflect assets at current values. This policy has been adopted given that the asset values mainly comprise IT equipment which have a short life and low value.

#### 1.2 Administration and Programme expenditure

Costs incurred on the Members Estimate, with the exception of Members' salary related expenditure, are treated as programme expenditure. The cost of administering Members' allowances and salaries has been charged against the House of Commons Administration Estimate.

#### 1.3 Operating income

No operating income is anticipated or collected under the Estimate. Any cash receipts representing repayment of debts arising from previous financial years are treated as Consolidated Fund Extra Receipts.

Receipts of insurance payments for lost or damaged computer equipment are surrendered to the Consolidated Fund. No appropriation in aid (AinA) proceeds arose from the disposal of IT assets.

#### 1.4 IT equipment

Members are provided with IT equipment to carry out their Parliamentary and representative duties. All IT equipment that is attributable to specific workstations is grouped and capitalised. Depreciation is charged on a straight line basis and is calculated at rates sufficient to write off the value of tangible fixed assets by equal instalments over their estimated useful lives.

For accounting purposes the useful economic life of computer equipment is deemed to be 4 years.

**1.5 Intangible fixed assets**

All software licences purchased through the Members' Central IT provision are fully amortised over the life of the hardware.

**1.6 Investments**

There are no short term current investments.

**1.7 Third party assets**

There are no third party assets held.

**1.8 Inventories**

No stock inventories are held and there is no work in progress.

**1.9 Research and development**

There is no research and development activity.

**1.10 Foreign exchange**

Those transactions which are denominated in a foreign currency are translated into Sterling at the exchange rate ruling on the date of each transaction. There were no foreign exchange transactions during 2010-11.

**1.11 Grants payable**

These include financial assistance provided to Opposition parties and an Exchequer contribution to the Members' Fund.

**1.12 Leases**

No operating or finance leases are held.

**1.13 Service Concessions (PPP/PFI)**

There were no PFI transactions during the year.

**1.14 Value added tax**

This account is outside the scope of VAT. Output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

**1.15 Going concern**

Although the closing balance on the General Fund is negative and is likely to remain so in future years, the Members Estimate is expected to continue to receive annual funds voted by Parliament.

**2. Reconciliation of accounts to capital budget**

	Note	2010-11		2009-10
		Estimate	Outturn	Outturn compared with final provision
		£000	£000	£000
Additions to assets	7,8	4,000	3,460	56
<b>Capital Budget</b>		<b>4,000</b>	<b>3,460</b>	<b>56</b>

**3. Reconciliation of net resource outturn to net cash requirement**

	Note	2010-11		Net total outturn compared with Estimate: saving/(excess)
		Estimate	Outturn	
		£000	£000	£000
Resource Outturn		85,250	1,750	83,500
Capital				
Acquisition of property, plant & equipment	7,8	4,000	3,460	540
Accruals adjustments				
Non-cash items	6	(8,000)	54,188	(62,188)
Changes in working capital other than cash	10, 12	12,000	8,490	3,510
<b>Net Cash Requirement</b>		<b>93,250</b>	<b>67,888</b>	<b>25,362</b>

#### 4. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the House and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Outturn 2010-11	
	Income	Receipts
	£000	£000
Other amounts collectable on behalf of the Consolidated Fund		
Non-operating income and receipts	-	<i>(397)</i>
Excess cash to be surrendered to the Consolidated Fund	<i>(367)</i>	-
<b>Total income payable to the Consolidated Fund</b>	<b><i>(367)</i></b>	<b><i>(397)</i></b>

The non-operating receipts comprise:

- Recoveries in relation to the Legg Review of past ACA payments (£36,877). This includes repayments received from current Members (£34,044) and former Members (£2,833).
- Voluntary payments made by Members (£181,676). This includes repayments against expenses claimed (£69,021) and returns of rental and other deposits following the General Election (£112,655).
- CFER recoveries (£178,174). This includes repayments arising from Standards and Privileges Committee reports recognised in the 2009-10 accounts (£14,990) and arising in 2010-11 (£93,000), together with monies relating to prior years (£70,184).

#### 5. Members' costs

##### 5.1 Members' costs comprise:

	Note	2010-11	2009-10
		£000	£000
Members' salaries		4,296	42,340
Resettlement Grant		10,398	-
London Cost Allowance		27	681
Social security costs		406	4,364
		15,127	47,385
Other pension costs	13	14,340	12,625
<b>Total net costs</b>		<b>29,467</b>	<b>60,010</b>

There were 646 elected Members of the House as at 1 April 2010. This became 650 following the General Election on 6 May 2010. The annual salary of each Member was £65,738 from 1 April 2010. Included in the Members' salary costs are the additional salaries for the Chairman of Ways and Means (£41,371) and the two Deputy Chairmen of Ways and Means (£36,360 each). There were thirty three Chairmen of the Select Committees (£14,582 each) and the thirty eight Chairmen of General Committees (£2,910 - £14,582 each). Members chairing more than one Committee are only entitled to a single payment.

## 5.2 The House of Commons Members' Fund (HCMF)

The HCMF was set up by the House of Commons Members' Fund Act 1939 as amended by subsequent Acts between 1948 and 1991. The Fund is not a pension scheme as defined by the House of Commons Financial Reporting Manual but functions primarily as a benevolent fund and operates to provide for former Members and their dependants who find themselves in difficult circumstances. These accounts only show the contribution paid into HCMF each year on behalf of all Members. Separate accounts for the HCMF are published and can be viewed at <http://www.official-documents.gov.uk>. The last full valuation of the HCMF was as at 30 September 2006 when the Government Actuary assessed the value of the assets at £4.6 million. The total liability of the fund was £2.3 million, giving a surplus of £2.3 million. The Trustees have determined that actuarial reports will be commissioned every 5 years. The next actuarial report will be at 30 September 2011.

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**6. Programme costs**

	Note	2010-11		2009-10 (restated) <sup>1</sup>	
		£000	£000	£000	£000
<b>Cash Items</b>					
Winding Up Allowance		6,903		134	
Staffing Expenditure		6,470		63,424	
Central service provision <sup>2</sup>		2,536		1,819	
Staff redundancy <sup>3</sup>		2,338		33	
Contributions to Members' staff pensions		651		5,682	
Administrative and Office Expenditure		760		10,162	
Personal and Additional Accommodation Expenditure		190		6,796	
Communications Expenditure		26		3,998	
Travel Expenditure		176		5,367	
Insurance		161		188	
Temporary secretarial assistance		67		476	
			<b>20,278</b>		<b>98,079</b>
<b>Grants to other bodies</b>					
Financial assistance to Opposition parties		5,948		6,883	
Members' Fund		215		215	
Other		30		49	
<b>Subtotal</b>			<b>6,193</b>		<b>7,147</b>
<b>Non-cash items</b>					
Depreciation and amortisation of fixed assets:					
Property, plant & equipment	7	789		453	
Reduction in provision for bad and doubtful debt	10	(16)		35	
Gain/(loss) on disposal of fixed assets		-		-	
Pension liability provision	13	(55,041)		7,675	
Audit fee <sup>4</sup>		80		354	
<b>Subtotal</b>			<b>(54,188)</b>		<b>8,517</b>
<b>Grand Total</b>			<b>(27,717)</b>		<b>113,743</b>

<sup>1</sup> The figures for 2009-10 have been re-stated to exclude the cost of capital charge of £6.8 million since abolished. A reconciliation to the actual outturn shown in the Statement of Parliamentary Supply is provided in Note 1.

<sup>2</sup> The Central Service Provision includes expenditure in relation to training (£0.2 million), current IT expenditure (£2.0 million) and central management (£0.2 million).

<sup>3</sup> Some discretionary Member staff redundancy payments were also incurred against Winding Up expenditure.

<sup>4</sup> Auditors have received no remuneration for non-audit work.

## 7. Property, plant and equipment

The House's property, plant and equipment comprise of IT Equipment.

	2010-11	2009-10	2008-09
	£000	£000	£000
<b>Cost or valuation</b>			
<b>At 1 April</b>	3,198	3,142	3,124
Additions	3,460	56	19
Disposals	(429)		(1)
<b>At 31 March</b>	<b>6,229</b>	<b>3,198</b>	<b>3,142</b>
<b>Depreciation</b>			
<b>At 1 April</b>	3,031	2,578	1,869
Charge in year	789	453	710
Disposals	(429)	-	(1)
<b>At 31 March</b>	<b>3,391</b>	<b>3,031</b>	<b>2,578</b>
<b>Net book value at 31 March</b>	<b>2,838</b>	<b>167</b>	<b>564</b>

## 8. Intangible Non-current assets

The House's intangible non-current assets comprise of software licences.

	2010-11	2009-10	2008-09
	£000	£000	£000
<b>Cost or valuation</b>			
<b>At 1 April</b>	-	20	20
Additions	-	-	-
Disposals	-	(20)	-
<b>At 31 March</b>	<b>-</b>	<b>-</b>	<b>20</b>
<b>Amortisation</b>			
<b>At 1 April</b>	-	20	20
Charged in year	-	-	-
Disposals	-	(20)	-
<b>At 31 March</b>	<b>-</b>	<b>-</b>	<b>20</b>
<b>Net book value at 31 March</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 9. Financial Instruments

As the cash requirements of the department are met through the Estimate process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the House's expected purchase and usage requirements and the House is therefore exposed to little credit, liquidity or market risk.

## 10. Trade receivables and other current assets

	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
	£000	£000	£000
<b>Amounts falling due within one year:</b>			
Members <sup>1</sup>	46	117	24
Deposits and advances	1	31	57
Other receivables	21	60	124
Prepayments and accrued income	-	44	139
Provision for doubtful debt <sup>2</sup>	(19)	(35)	-
	<b>49</b>	<b>217</b>	<b>344</b>
Amounts due from the Consolidated Fund in respect of supply	146	-	-
	<b>195</b>	<b>217</b>	<b>344</b>

<sup>1</sup>The Members trade receivables figure represents the amount due as at 31 March 2011 and includes:-

	Amount outstanding at 31 March 2010 £000s	Repaid or reduced on appeal in 2010-11 £000s	Amount outstanding at 31 March 2011 £000s	Repaid or entered into contract to repay £000s	Balanced owed £000s
Legg Review of ACA payments:					
- Current Members	34	34	-	-	-
- Former Members <sup>3</sup>	52	20	32	27	5
Amounts to be recovered from current Members where claims had inadequate supporting evidence <sup>4</sup>	16	8	8	5	3
Standards and Privileges Committee reports					
- Prior years	15	15	-	-	-
- 2010-11 related	-	-	6	6	-
<b>Total</b>	<b>117</b>	<b>77</b>	<b>46</b>	<b>38</b>	<b>8</b>

<sup>2</sup>The provision for doubtful debt represents recoveries sought from former Members in relation to the Legg Review of ACA payments. The £52,000 debt shown at 31 March 2010 was subsequently reduced to £35,000 on appeal. The reduction of £17,000 plus payments of £3,000 repaid in 2010-11 against repayment agreements of £16,000 make up the £20,000 figure shown in the table.

<sup>3</sup>Settlements of £27,000 received after 31 March 2011 has reduced the balance owed to less than £5,000 at 31 August 2011.

<sup>4</sup>Further repayments of £5,000 have subsequently been received reducing the balance owed to less than £3,000 at 31 August 2011.

**11. Cash and cash equivalents**

	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
	£000	£000	£000
Balance at 1 April	577	299	256
Net change in cash and cash equivalents	(326)	278	43
<b>Balance at 31 March</b>	<b>251</b>	<b>577</b>	<b>299</b>
The following balances at 31 March were held at:			
Office of HM Paymaster General	251	577	299
Commercial banks and cash in hand	-	-	-
<b>Balance at 31 March</b>	<b>251</b>	<b>577</b>	<b>299</b>
Amounts issued from the Consolidated Fund but not spent at year end	(146)	167	254
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	397	410	45
	<b>251</b>	<b>577</b>	<b>299</b>

**12. Trade payables and other current liabilities**

	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
	£000	£000	£000
<b>Amounts falling due within one year</b>			
Other taxation and social security	42	3,626	3,077
Members	-	180	102
Other payables – current	32	638	733
Accruals and deferred income	1,543	5,817	7,972
	<b>1,617</b>	<b>10,261</b>	<b>11,884</b>
Amounts issued from the Consolidated Fund for supply but not spent at year end		167	254
Consolidated Fund extra receipts due to be paid to the Consolidated Fund			
- Received	397	410	45
- Receivable	6	36	-
	<b>2,020</b>	<b>10,874</b>	<b>12,183</b>

## 13. Provision for Pension Liability

### Overview

The Parliamentary Contributory Pension Fund (PCPF) is a funded pension scheme which generates a significant liability on the Statement of Financial Position. This liability will be redeemed through the pension payments made to current and former Members and as such will not be fully realised for many years.

A major adjustment during 2010-11 was the change, from RPI to CPI, in the indexation rate to be applied to pensions in payment. The management commentary in the Foreword to these accounts provides further details. This has reduced the existing pension liability by £63 million. Although the liability will not be realised for many years the accounting standards require the adjustment to be recognised immediately giving rise to a £63 million credit to operating expenditure.

Contribution rates are reviewed periodically in conjunction with the returns on assets held by the pension scheme. This has previously led to contribution rate adjustments to address the level of pension scheme liabilities. Further details of recent adjustments are provided below. Future changes may arise from the Independent Public Service Pensions Commission: Final Report (Hutton Report) published on 10 March 2011. The Constitutional Reform and Governance Act 2010 made provision for IPSA to determine the Exchequer contribution to the PCPF in the future.

Annual costs against the Estimate include the contribution to fund benefits earned during the financial year (see Note 5) and charges on the historic liability (see Note 6) arising from the accumulated past service benefits earned.

### Benefits provided

#### (a) Members' Pensions

The PCPF is a defined benefit scheme based on a Member's salary over the last 12 months of service. It is funded by contributions from Members, the Exchequer, and investment returns. Members can build up pension under one of three options:

- 1/40<sup>th</sup> for each year of service (subject to a maximum pension of 2/3rds of final pensionable salary, less pensions built up prior to being elected as a Member) requiring a 11.9% Member salary contribution;
- 1/50<sup>th</sup> for each year of service (subject to a maximum pension of 2/3rds of final pensionable salary, less pensions built up prior to being elected as a Member) requiring a 7.9% Member salary contribution;
- 1/60<sup>th</sup> for each year of service requiring a 5.9% Member salary contribution.

The Government Actuary's Department (GAD) recommends the amount the Exchequer pays after each triennial valuation of the Fund. Following completion of the 2008 valuation, GAD recommended that the Exchequer contribution should be at the rate of 31.6% of payroll (32.2% plus contribution to finance deficit of 8.5%, less average Members' contribution of 9.1%) from 1 April 2009. This was to be 'adjusted to take account of any increase in Members' contributions and/or previous Government proposed options to cap the Exchequer contribution to around 20%'. These were:

- Increase the Members' contribution rate from 10% to 11.9% of salary (for an accrual rate of 1/40<sup>th</sup>), and from 6% to 7.9% (for 1/50<sup>th</sup>) and;
- Extend the cap on a Member's pension accrual, which is set at 2/3rds of final salary, to include those Members aged over 65 who joined the Scheme before 1 June 1989.

Both changes were agreed by the House in December 2009, and were backdated to 1 April 2009. Taken together these measures resulted in the Exchequer contribution reducing from 23.1% to 20.2%, which is in line with the cap recommended by the SSRB and endorsed by the House. The current Exchequer contribution is therefore 28.7% inclusive of the 8.5% deficit contribution.

The supplementary pension contributions associated with the Ministerial element of a Member's salary are funded by the Estimate and are included in the pensions figure in Note 5. The Ministerial salary supplement itself is funded by the relevant Government Department, as are Members' pension contributions due on unclaimed supplementary Ministerial salary.

There are ten Trustees of the PCPF, eight of whom are serving Members of the House of Commons. The other two Trustees are former Members. The cost of administering the scheme is financed from the assets of the Fund.

The Accounts of the PCPF are published separately. Further information about the PCPF or a copy of the Annual Report can be obtained from The Parliamentary Contributory Pension Fund Secretariat, Pensions Unit, Department of Finance, House of Commons, London, SW1A 0AA or [www.official-documents.gov.uk](http://www.official-documents.gov.uk).

*(b) Staff Pensions*

Members' employees automatically join the Portcullis Pension Plan, although they can opt out if they wish. Until the General Election all employees within the Plan benefit from a contribution paid by the House of 10% of their earnings. The contribution is recognised in operating costs (see Note 6). Since the General Election, the contribution has been met by the IPSA.

**Assumptions adopted for calculating the pension liability**

The actuarial valuation involves placing a current value on the benefit payments due to be paid in future years. They cover a considerable period and include liabilities accrued during 2010-11 and previous years for current, former and retired Members.

In the Budget on 22 June 2010 the Government announced the adoption of CPI instead of RPI for indexing public service pensions in payment from April 2011. This has resulted in a £63 million reduction to the pension liability.

International Accounting Standards (IAS 19) requires the value of accrued liabilities and the contribution rate to be assessed using the standard actuarial methodology known as the Projected Unit Credit Method. The demographic assumptions adopted include mortality rates (both in service and in retirement), withdrawals from service, and ages of dependants. Financial assumptions include future increases in pensionable salary due to general inflation, pension increases (both in payment and deferred), and the rate of interest (or notional return) used to calculate the discounted value of the benefits and contributions. The assumptions adopted have been agreed following advice from the Government Actuary's Department.

	<b>As at 31 March 2011</b>	<b>As at 31 March 2010</b>
Rate of return (discount rate)		
Rate of increase:	5.7%	5.8%
- Salaries	5.3%	5.4%
- Pension in payment/deferred	3.0%	3.9%
CPI rate	3.0%	3.2%
RPI rate	3.8%	3.9%

The discount rate adopted is the current rate of return on corporate bonds (AA rated). The public sector pay freeze for the next two years is not considered to impact significantly on the long term historic trend for salary growth. The rate of increase for salaries is based on the assumption that earnings in the future will continue to increase at a rate 1.5% above RPI. The expected return on assets is:

	<b>As at 31 March 2011</b>	<b>As at 31 March 2010</b>
Equities	7.2%	7.4%
UK Government bonds	4.2%	4.4%
Other bonds	5.0%	5.2%
Cash	4.2%	4.4%

The results of actuarial calculations are inherently uncertain because of the assumptions made. A sensitivity analysis prepared by the actuaries suggests that changes to the main assumptions could have a significant impact on the total pension liability:

Rate:	£ million
- Change of 0.5% in earnings	5.9
- Change of 0.5% in pensions	41.3
Pensioner mortality:	
- Average increase of 2 years life expectancy	53.0

## Movement on pension liability

### (i) Movement in actuarial liability

The value of liabilities is determined by rolling forward the liabilities as 1 April 2008, based on the data from the 2008 actuarial valuation, to 31 March 2011. This introduces a degree of uncertainty that is corrected at the time of a full actuarial review.

	2010-11	2009-10
	£ million	£ million
<b>Actuarial liability at start of year</b>	629.0	431.5
<b>Movement in the year due to:</b>		
Current service cost (net of member contributions)	15.4	9.4
Member regular contributions	5.3	4.7
Enhancements (e.g. additional Member contributions)	0.3	0.4
Past service costs arising from change in indexation (RPI to CPI)	(63.0)	-
Benefits paid (net of transfers)	(27.8)	(15.9)
Interest on scheme liability	33.3	29.7
Changes in assumptions	(2.6)	175.6
Experience gain/(loss) pension scheme liabilities	(0.6)	(6.4)
Rounding adjustment	0.1	-
<b>Actuarial liability at end of year</b>	<b>589.4</b>	<b>629.0</b>

The reduction in liability of £39.6 million primarily represents the reduced liability arising from the change, from RPI to CPI, in the indexation to be applied to pensions in payment (£63.0 million) less the additional pension benefits accrued during the year (£21.0 million).

### (ii) Movement in assets

	2010-11	2009-10
	£ million	£ million
<b>Opening fair value of scheme assets</b>	402.9	289.0
<b>Movement in year due to;</b>		
Expected return on scheme assets	26.6	18.8
Actual return less expected return on scheme assets	(3.2)	93.4
Exchequer contribution	14.3	12.6
Member contributions	5.6	5.1
Benefits paid (net of transfers)	(27.8)	(15.9)
Rounding adjustment	-	(0.1)
<b>Closing fair value of scheme assets</b>	<b>418.4</b>	<b>402.9</b>

**(iii) Movement in net liability**

	<b>2010-11</b>	<b>2009-10</b>
	<b>£ million</b>	<b>£ million</b>
Present fair value of scheme liabilities	589.4	629.0
Fair value of scheme assets	(418.4)	(402.9)
Rounding adjustment	-	(0.1)
<b>Net liability</b>	<b>171.0</b>	<b>226.0</b>

**(iv) Movement in deficit during 2010-11**

	<b>2010-11</b>	<b>2009-10</b>
	<b>£ million</b>	<b>£ million</b>
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of year	(226.0)	(142.5)
Current service cost (net of member contributions)	(15.4)	(9.4)
Exchequer contribution	14.3	12.6
Past service costs	63.0	-
Other finance costs	(6.9)	(10.9)
Actuarial loss	-	(75.8)
<b>Deficit in scheme at end of year</b>	<b>(171.0)</b>	<b>(226.0)</b>

Based on the financial and demographic assumptions applicable at the beginning of 2010-11 the current service cost for the year ended 31 March 2011 is estimated to be 32.1% of pensionable salaries. This is equivalent to a cost of approximately £15.4 million.

The Exchequer contribution based on a rate of 31.6% of payroll is worth £14.3 million (see paragraphs on Members' pensions above for further details). This is recognised as a non-cash adjustment in the Statement of Comprehensive Net Expenditure (see Note 5)

Finance costs shown (£6.9 million) are the expected return on pension scheme assets (£26.6 million) less interest on pension liabilities (£33.5 million). The actuarial loss represents the difference between estimated and actual pension liabilities arising from the assumptions used - the gain on pension liabilities (£0.6 million) and changes to the assumptions used (£2.6 million) less the difference between the expected and actual return on assets (£3.2 million).

A decrease in the pension provision of £55,041,000 has been recognised as a non-cash adjustment in the Statement of Comprehensive Net Expenditure (see Note 6). This is calculated as follows:

	£000	£000
Current service cost – represents the value of the additional benefits accrued by scheme members during the year less Members' contributions (£5,268,127 in 2010-11).	(15,400)	
Past service costs	63,000	47,600
Employer's contributions (note 5 of the Accounts)		14,341
Finance Costs :		
Expected return on pension scheme assets	26,600	
Interest on pension scheme liabilities	<u>(33,500)</u>	
Net Loss		(6,900)
Decrease in provision		<b>55,041</b>

An analysis of the pension fund adjustments shows:

	2010-11 £000	2009-10 £000	2008-09 £000	2007-08 £000	2006-07 £000
<b><u>Finance costs (see table above):</u></b>					
Amount	(6,900)	(10,900)	(6,200)	900	(1,000)
As a percentage of the scheme assets at the Balance Sheet date	4.04%	4.82%	4.3%	0.9%	1.0%
<b><u>Experienced scheme liabilities gain/(loss):</u></b>					
Amount	600	6,400	5,900	(1,400)	5,900
As a percentage of the present value of the scheme liabilities at the Balance Sheet date	(0.35%)	2.83%	4.1%	1.4%	5.7%
<b><u>Total actuarial (gain)/loss:</u></b>					
Amount	-	(75,800)	(39,300)	7,700	33,500
As a percentage of the present value of the scheme liabilities at the balance sheet date	-	33.5%	27.5%	7.9%	32.5%

#### 14. Capital commitments

There were no capital commitments as at 31 March 2011 (none as at 31 March 2010).

#### 15. Contingent liabilities and contingent assets disclosed under IAS 37

There were no contingent liabilities at 31 March 2011 (none as at 31 March 2010).

#### 16. Losses and special payments

	2010-11 £000	2009-10 £000
<b>Losses</b>	7	28

Losses include a total of £6,843.12 of old debts resulting from overpayments. The recovery of this sum is considered unlikely and has been written off.

#### 17. Related-party transactions

The House of Commons: Administration Estimate is regarded as a related party. The House of Commons Commission provide resources for the following services to Members and their staff: accommodation, utilities, catering, security, communications and administration. Computer equipment provided to both Houses is being managed by the Parliamentary Information and Communications Technology (PICT) service. PICT was formally vested as a Joint Department on 1 April 2008 under the Parliament (Joint Departments) Act 2007. In addition, the remuneration package for Members of Parliament is approved by Resolution of the House of Commons. Members also act as Managing Trustees for the Parliamentary Contributory Pension Fund and the House of Commons Members' Fund.

The Register of Members' Interests provides information of any pecuniary interest or other material benefit which a Member receives which might reasonably be thought by others to influence his or her actions, speeches, or votes in

Parliament, or actions taken in his or her capacity as a Member of Parliament. The Register is published soon after the beginning of a new Parliament under the authority of the Select Committee on Standards and Privileges, and annually thereafter. Between publications the Register is regularly updated in a loose leaf form and this is available for public inspection in the Committee Office of the House of Commons. Employment agreements deposited with the Registrar are available for personal inspection only.

The Members Estimate provides financial assistance to Opposition parties to carry out their parliamentary or representative functions. The total payable to each party is linked to a formula based on the number of seats won and the votes cast at the previous General Election and amounted to £5.9 million in 2010-11.

Payroll and other administration services provided to both the Parliamentary Contributory Pension Fund (PCPF) and House of Commons Members' Fund (HCMF) are re-charged to the respective trustees of those Funds.

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## **18. Events after the reporting period**

In accordance with the requirements of IAS 10, post Statement of Financial Position events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Independent Auditor's Report to the House of Commons.

Residual debts arising from Members' claims continued to be followed up after 31 March 2011. These have been reported in the main body of the accounts (see Statement on the System of Internal Control).

The Clerk of the House was knighted in the 2011 Queen's Birthday Honours List. Robert Rogers has been appointed to take over as Clerk of the House and Accounting Officer for the Estimate from 1 October 2011.

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**House of Commons:  
Members Estimate  
Members Estimate Audit Committee  
Annual Report 2010-11**

**MEMBERS ESTIMATE AUDIT COMMITTEE ANNUAL REPORT 2010-11****Introduction**

1. This is the seventh annual report of the House of Commons Members Estimate Audit Committee (MEAC), which was established by the House of Commons Members Estimate Committee (MEC) on 14 June 2004, following changes to the governance structure for the Members Estimate agreed by the House in January 2004.
2. This report outlines the MEAC's conclusions in relation to the Members Estimate for the financial year 2010-11. 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 MEAC's membership and activity during the year are provided in the Appendix to this report. In April 2011 the Committee agreed to seek the House of Commons Commission's approval to update and expand its terms of reference. The revised terms of reference approved by the Commission are also included in the Appendix.

**Conclusion for the financial year 2010-11***The effectiveness of the system of governance, risk management and internal control (the "system of internal control")*

4. IPSA took over responsibility for Members' allowances the day after the General Election. The size of the Members' Estimate is therefore much smaller than last year's.
5. The external auditors raised three fundamental internal control issues in relation to evidentiary requirements in respect of last year's accounts:
  - (a) payments where the requirements of the "Green Book" (the then framework of rules governing the administration of Members' allowances) for supporting documentation were not met in full (£0.8 million of payments);
  - (b) payments relating to the total allowances paid to certain Members for the year in question, where evidence was held by the police for investigation and was not, therefore, available for audit purposes (£1.8 million of payments);
  - (c) expenditure where evidence was obtained by the House in line with the requirements of the Green Book, but where the NAO took the view that those requirements were insufficient to prove that the expenditure was for parliamentary purposes and therefore was unable to obtain the assurance it required (£11.3 million of expenditure).
6. The first issue (inadequately supported claims) was largely dealt with by the retrospective work carried out last autumn to obtain sufficient evidence (see Appendix for more details) and the subsequent tightening of controls. The figure for 2010-11 was smaller - £144,000, compared to £830,000 last year - and primarily related to staff contracts and property rental agreements. £16,000 was recognised in the 2009-10 Resource Accounts as amounts to be recovered where payments had been made to Members without adequate supporting evidence; we note that management had successfully managed to reduce that amount to £3,000, owed by a single Member, as of 31 August 2011.
7. The second issue (payments where evidence was held by the police and therefore unavailable for audit purposes) has continued but the amount involved is smaller - £52,000, if the Members' salary payments are included (it was £1.8 million last year). The NAO's view was that it required names to satisfy itself with regard to evidence under investigation by the police. The Accounting Officer decided not to release this information. We accept and respect this decision. [See also our comments in paragraph 15].
8. The third issue (Green Book evidence not sufficient) continued to apply to some of the payments made in the first part of the financial year before the House had transferred responsibilities to IPSA. The 2010-11 figure was £291,000, which was smaller than last year (£11.3 million). The dissolution of Parliament in April 2010 meant that payments to Members under the Members Estimate in the last financial year were not material - and in future years the issue will be one for IPSA to address.
9. We accept management's conclusion that the transition to IPSA was carried out successfully and we received assurance that the risk of items being claimed from both allowance systems had been mitigated.

10. The Committee will continue to monitor closely any developments on the future of the Members Estimate (see Appendix).

*The integrity of the annual Resource Accounts*

11. We have reviewed the annual Resource Accounts. We recommend that additional work is carried out to improve the clarity of the narrative on pensions reporting in future accounts, but consider the Accounts acceptable for signature by the Accounting Officer.
12. We are satisfied with the Statement on Internal Control. We recommend that management review the wording of the rules governing the payment of Short Money and Representative Money to avoid future confusion in periods immediately after a General Election.

*The work of the internal audit service*

13. No specific internal audit reports were carried out on the Members Estimate for the reasons set out in the Appendix and we note that the Director of Internal Audit has not therefore been able to provide a formal opinion on that Estimate. We are satisfied with that in the circumstances. We refer readers to the Annual Report of the Administration Estimate Audit Committee for our conclusions on the overall control environment.

*The external audit by the external auditor*

14. 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. We note that the NAO's Audit Completion Report and opinion were delivered late and that our review therefore had to be carried after the summer recess, resulting in late publication of the accounts.
15. We note the NAO's reason for qualifying the accounts. It was solely the names of MPs under investigation that were withheld and, as we have said above, we accept and respect the Accounting Officer's reasons for doing so. No explanations were withheld and all transaction details were provided, as well as an additional summary of those claims under investigation on an anonymised basis. Management has taken appropriate steps to implement recommendations made by the NAO in 2009-10.

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

16. No other matters were referred to the Committee by the Accounting Officer or the Commission in 2010-11.

## Appendix

### Terms of reference

1. In April 2011 the Committee agreed to seek the House of Commons Commission's approval to update and expand its terms of reference. The House of Commons Commission approved the following revised terms of reference for the Committee on 16 May 2011:

#### REMIT

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

#### MEMBERSHIP

The membership of the Committee shall be:

- 3 MP members, including:
  - A Member of the Members Estimate Committee
  - A Member of the Finance & Services Committee
- 3 External Members, appointed by the MEC

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

#### OBJECTIVES

The Committee has been established to support the Accounting Officer in discharging his responsibilities under the Members Estimate, particularly with regard to the maintenance of an effective system of internal control. The Members Estimate contains financial assistance to Opposition parties (Short Money and Representative Money); the Members Fund; ICT maintenance and equipment depreciation; training for Members and their staff; disability assistance; insurance and contributions to the Members' pension scheme (the Parliamentary Contributory Pension Fund (PCPF)).

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 Members Estimate Committee

#### 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; and
- 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 will include:

- any significant changes in the accounting policies or treatments;
- major financial reporting judgements or estimates;
- consistency of the Statement on Internal Control;
- resolution of any matters raised by the external auditor; and
- 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; and
- 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 will 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; and
- annual review of the external auditor's independence and effectiveness.

#### **RELATIONSHIP WITH THE ADMINISTRATION ESTIMATE AUDIT COMMITTEE**

The Committee will rely upon the work of the Administration Estimate Audit Committee (AEAC) on matters that relate to the overall governance, risk management and internal control of the House of Commons Administration, and concentrate its own work on those parts of its responsibilities that specifically relate to matters under the Members Estimate. Where relevant, the Committee will take into account the results of the AEAC's deliberations in drawing conclusions on its own work.

#### **Membership**

2. Alex Jablonowski has been Chair of the Committee since June 2010, when he took over the chairmanship in line with a recommendation by the 2007 Tebbit Review of the Management and Services of the House of Commons that the Committee should be chaired by an external member. The previous chair was Rt Hon Sir George Young MP.
3. The current MP members of the Committee are: Rt Hon Sir Alan Haselhurst MP, Rt Hon Hilary Benn MP, and John Thurso MP. They replaced Mr Clive Betts MP, Ms Rosie Winterton MP and Mr Nick Harvey MP who served on the Committee until October 2010.
4. The other two external members of the Committee are: Mark Clarke and Stephen Brooker (who replaced longstanding member David Taylor in July 2010). Stephen Brooker was appointed by the House of Commons Commission, following a process of open competition, in April 2009 to take up his position when David Taylor's contract expired.
5. The membership of the Administration Estimate Audit Committee also reflects these changes.
6. From 1 April 2011 the House's Department of Resources was replaced by a Department of Finance and a Department of Human Resources and Change, and the new Director of Finance now attends Committee meetings instead of the former Director General of Resources. The Clerk of the House 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.

7. The Committee's secretary is the Private Secretary to the Clerk of the House, Gosia McBride, who replaced Hannah Weston in December 2010. The Committee also has a part-time Committee Assistant.

### Meetings

8. The Committee met four times in the financial year 2010-11: on 7 and 14 July 2010, 24 November 2010 and 26 January 2011. In addition it held an informal meeting on 3 November 2010. The external members of the Committee also held informal meetings with the Director of Internal Audit, the House's new Finance Director, Myfanwy Barrett, and the NAO's new Client Director (Parliament) on 16 March 2011.
9. The Committee had two meetings in the current financial year before this report was agreed, on 27 April and 6 July 2011.

### External Audit

#### *2009-10 Resource Accounts*

10. 2009-10 was the first year in which the House's external auditor, the National Audit Office (NAO), was requested to carry out a "full scope" audit of the Members Estimate Accounts, including an opinion on the regularity of expenditure.
11. The Comptroller and Auditor General qualified his opinion on regularity on three different categories of expenditure:
- (a) in respect of £0.8 million of payments where the requirements of the "Green Book" (the then framework of rules governing the administration of Members' allowances) for supporting documentation were not met in full;
  - (b) in respect of £1.8 million of payments relating to the total allowances paid to certain MPs for the year in question, where evidence was held by the police for investigation and was not, therefore, available for audit purposes;
  - (c) in respect of £11.3 million of expenditure where evidence was obtained by the House in line with the requirements of the Green Book, but where the NAO took the view that those requirements were insufficient to prove that the expenditure was for parliamentary purposes and therefore elected not to undertake any audit work in these areas.
12. The Committee, in three of its four meetings in 2010-11, took a detailed interest in the results of the audit and management's remedial actions, including the disclosures in the Resource Accounts and the wording of the Statement of Internal Control. A more detailed exposition of this involvement was set out in the Committee's 2009-10 Annual Report, published with the Accounts in December 2010.

#### *2010-11 Members Estimate*

13. The Independent Parliamentary Standards Authority (IPSA) took over administration of Members' salaries and allowances following the General Election on 6 May 2010, and consequently the size of the Members Estimate has become much smaller. It now covers only: financial assistance to Opposition parties to support them in the discharge of their parliamentary or representative functions (Short Money and Representative Money); the Members Fund; ICT maintenance and equipment depreciation; training for Members and their staff; disability assistance; insurance and contributions to the Members' pension scheme (the Parliamentary Contributory Pension Fund (PCPF)).
14. The 2010-11 Resource Accounts include Members' salaries and allowances claimed up to the date of the General Election, together with the Resettlement Grant and Winding Up allowance payments which arose after the Election. While the amounts claimed in this period were small, it was nevertheless possible that some of the issues that resulted in a qualification in last year's accounts would arise with respect to evidential requirements. The Members Estimate Audit Committee's main focus for this year's accounts was therefore to ensure the system of internal control was sufficiently effective and to minimise the risk of receiving a qualified opinion from the NAO.
15. In January 2011 the Committee discussed the NAO's planned approach to auditing the House of Commons Resource Accounts 2010-11 with the NAO and the then Director General of Resources. The Committee asked for an update on what proportion of the allowances paid during the transition period to IPSA was potentially unsupported and the likelihood of receiving another qualified opinion.

16. The NAO also raised risks relating to: the timetable for assurances from political parties' auditors on use of Short Money and Representative Money; the treatment of receivables; the reorganisation of the Department of Resources (into a new Department of Finance and a new Department of Human Resources and Change); and the assumptions used to calculate the Parliamentary Contributory Pension Fund (PCPF). The Committee discussed the first two issues at its January meeting.
17. At its April meeting the Committee considered the NAO's update on the 2010-11 accounts audit. The NAO reported that progress had been made in some areas, but that the issue of the amount covered by police investigations and therefore unavailable to the auditors was still under discussion with management. The Committee considered the risk of qualification of the accounts and noted that the amount involved was small.

### Internal Audit

18. As set out in the terms of reference above, MEAC relies upon the work of the Administration Estimate Audit Committee (AEAC) on matters that relate to the overall governance, risk management and internal control of the House of Commons Administration, and concentrates its own work on those parts of its responsibilities that specifically relate to matters under the Members Estimate. Areas of overlap between the Audit Committees, for example in relation to the regular report on the work of Internal Audit (IA), are usually discussed in AEAC meetings and have therefore not been set out in this report but are available in the annual report of the AEAC, published with the House of Commons Commission's Annual Report for 2010-11 (HC1439) in July 2011.
19. As detailed in last year's annual report, the Internal Audit Plan for 2010-11 relating to the Members Estimate was superseded by the initial findings of the NAO's audit work for 2009-10 (see External Audit above). This led the Accounting Officer to delay publication of the 2009-10 accounts and to launch a major project to retrospectively review the validity of the supporting evidence for all material items of expenditure and to ensure sufficient evidence was obtained. Until the accounts were agreed in December 2010, internal audit work was limited to attendance at liaison meeting with the then Department of Resources and the NAO, with the exception of a high level review of the IPSA Transition Project arrangements.
20. After the accounts were published, Internal Audit took the view that the extent of NAO testing of transactions in 2010-11 meant that there was little scope for internal audit work that did not duplicate what would have to be covered by the NAO and no such work was carried out.
21. Given the size and scope of the Members Estimate for 2011-12, the Internal Audit Plan does not contain any specific audit work directly related to expenditure under the Members Estimate, although some will have findings that are related to management systems that cover both Estimates.

### Future of the Members Estimate

22. In July 2010 the Members Estimate Committee agreed in principle that the Members Estimate should be merged with the Administration Estimate to form a single House of Commons Estimate from April 2011. However, it later received legal advice that it would not be possible to merge all elements without primary legislation because Exchequer contributions to the PCPF and to the Members' Fund could not be said to be "for the service of the House of Commons". (The House of Commons Administration Act requires that all expenditure under the Administration estimate is either for the expenses of the House Departments or more generally for the service of the House of Commons.) The two estimates are therefore likely to remain separate at present.

### Further information about the Committee

23. The Committee publishes its minutes and annual reports on its page on the parliamentary website <http://www.parliament.uk/business/committees/committees-a-z/other-committees/members-estimate-audit/role/>.