

# PARLIAMENTARY STANDARDS BILL

## Memorandum from the House of Commons Audit Committees

### Summary

This memorandum sets out a number of questions and issues relating to audit and assurance, which arise from the provisions of the Parliamentary Standards Bill. It has been produced by the House of Commons Audit Committees, with the consent of the Commission and the MEC, to assist the House in its debate on the provisions of the Bill.

### **Background: the audit committees**

1. The Administration Estimate and Members Estimate Audit Committees (“the Audit Committees”) are sub-committees of the House of Commons Commission and Members Estimate Committee (MEC) respectively. The role of the Committees is, on behalf of the Commission and MEC, to consider the economy, efficiency, effectiveness, value-for-money, risk management and controls achieved by the House Service. The Audit Committees are chaired by the Shadow Leader of the House, Alan Duncan MP. The other members are Nick Harvey MP, Clive Betts MP and three external members with expertise in financial matters and audit, currently David Taylor FCA, Alex Jablonowski and Mark Clarke.

### **Questions and issues**

2. Until the inquiry of the Committee on Standards in Public Life (“the Kelly Committee”) reports, and the House makes a decision on the implementation of its recommendations, the exact role of the Independent Parliamentary Standards Authority (“the Authority”) will remain somewhat unclear. Nonetheless we would make some observations about the role and structure of the Authority as set out in the Bill, drawing on our long experience of issues surrounding Members’ allowances.

### *Role and structure of the Independent Parliamentary Standards Authority*

3. The Bill provides for the Authority to draw up a scheme for the payment of Members’ allowances, and to administer the payment of Members’ salaries and allowances. It is quite unusual for the functions of rule setting and administration to be undertaken by the same organisation. The Authority will also have a role in regulation. In order to mitigate the risk that the Authority will not wish to see errors in its own working, compensating audit-related checks and balances will need to be in place.

### *External audit*

4. Paragraph 24 of Schedule 1 (Audit) requires the Authority to submit its accounts annually to the Comptroller and Auditor General, who is to examine and certify them and lay a copy before each House of Parliament. We welcome the requirement for external audit by the National Audit Office (NAO) but would wish to see further clarification of the intended scope of the NAO’s audit; whether this will be solely an opinion on the accounts, or a full scope audit within the remit of the National Audit Office Act 1983, including regularity, propriety and value for money. The latter would require the NAO to take a view on the correctness of individual payments made by the Authority to Members.

### *Internal control, audit, assurance and governance*

5. External audit by the NAO will need to be integrated with internal audit and assurance functions in proportion to the size of the Authority. The internal governance of the Authority is not dealt with in depth in the Bill, but we would expect this to include a

Management Board, Audit Committee<sup>1</sup>, Internal Audit function and compliance arrangements.

6. The Authority will need to apply the highest standards of internal control. The system of internal control should include a compliance and assurance function undertaking pre and post payment checks on claims. It will need to be clear whether the staff of the Authority will be able to challenge the substance of Members' claims beyond the submission of receipts.

#### *Accountability*

7. The Authority is required to prepare an annual report to Parliament, but it is not clear whether the Accounting Officer will be required to account to the Treasury or to the House.

#### *Interpretation and authority*

8. The Bill makes the Authority responsible for drawing up and administering a scheme of Members' allowances. It needs to be made clear whether the Authority is also responsible for determining definitively the meaning of the rules and their interpretation, or whether there might be a role for any other individual or body in that process.

#### *The allowances scheme*

9. The allowances scheme drawn up by the Authority should be based on a clear and unambiguous rationale for the receipt of allowances by Members, so that its rules and regulations can be set within a clear framework. The scheme should be as simple as possible, both for Members to claim and for the Authority to administer. To minimise the risk of error, detailed rules and regulations should be as narrow and specific as possible. The rules should be openly available to Members and to the public. There should be absolute clarity about the documentation required in support of claims and about what sanction will be available to the Authority if that documentation is not provided.

#### *Support for Members*

10. The Bill introduces two new offences relating to the claiming of allowances, and one relating to the rules on paid advocacy. Minimising the risk of such offences being committed should be an important role of the Authority. It will be absolutely essential for Members to be provided with high quality, clear and consistent written and oral guidance.

#### *Implications for the House of Commons Service*

11. The creation of the Authority will have implications for the House's two Estimates. We anticipate that the Members Estimate will disappear and that any expenditure which used to be covered by that Estimate, which is not transferred to the Authority, will be absorbed into the Administration Estimate. There is uncertainty about the funding of particular expenditure, including Financial Support for Opposition Parties.
12. It is possible that the transfer of the payment and administrative functions relating to Members' allowances to the Authority will introduce diseconomies of scale and scope for

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<sup>1</sup> The remit of the Audit Committee could be to give assurance to the Authority's Accounting Officer that: high quality processes are in place to manage and control risk; overall governance arrangements are appropriate and operating effectively; the internal control framework is effective and supported by an appropriate compliance culture; external financial and non-financial reporting is accurate, appropriate and consistent with relevant guidance; internal financial and management reporting is timely, appropriate and consistent with external reports; Internal Audit assurance provides an appropriate level of comfort to the Accounting Officer; and, that relationships with the National Audit Office are effective.

both the House Service and the Authority. These effects will need careful management to ensure the efficiency and effectiveness of both bodies.

#### *Implications for House bodies*

13. The creation of the Authority will affect the roles of a number of existing House bodies, including: the Members Estimate Committee, the Committee on Members' Allowances and the Members Estimate Audit Committee. The effect on the scope and activities of these bodies will need to be clarified.

#### *Freedom of Information*

14. Paragraph 27 of Schedule 1 (Freedom of information) extends the Freedom of Information Act 2000 to the Authority. Although there is a requirement for consultation, it seems that it will be for the Authority to determine what information it will make public, about its own running as well as about payments to Members.

#### *Financial effects*

15. The requirement under Paragraph 22(5) of Schedule 1 for the Speaker's Committee "to have regard to any advice given" by the Treasury on the Authority's Estimate gives the Government of the day significant influence over the funding of the Authority.
16. The explanatory notes to the Bill suggest that it will have "minimal financial effects" (paragraph 24). A number of factors may affect the validity of this assessment, including the possible costs of: establishing robust ICT systems to support the administration of allowances by the Authority; the acquisition of new premises; and, whether relevant staff of the House are to be transferred to the Authority or redeployed within the House Service.
17. If the Kelly Committee proposes radical changes to the administration of allowances, which are accepted by the House, there is a risk that the structure of the Authority, as established by the Bill, may be inappropriate, inefficient or uneconomic. If expenditure by the House of Lords is brought under the Authority at a later date, the same risk will apply.

#### *Timing*

18. The timetable for the start of the Authority's operations needs to be clarified. Sufficient time will be required to ensure that the Authority's systems are robust, including the development of a modern, electronic system, which would accelerate the processing of claims, allow controls and checks to be embedded and provide good quality management information which could be acted upon. Appropriate transitional arrangements for the audit and assurance of payments to Members during the period before the Authority becomes fully operational will also be required.

#### *Members' staff*

19. On 30 April the House expressed its opinion that Members' staff should be employed by the House and asked the Commission to examine the matter. It is not clear whether it is now envisaged that Members' staff might become employees of the Authority.

**29 June 2009**