

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

**Annual Accounts &  
Audit Committee Annual Report**

**2011-12**

***(for the year ended 31 March 2012)***

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**

**Annual Accounts**

**2011-12**  
*(for the year ended 31 March 2012)*

## Foreword to the Accounts

As at 31 March 2012

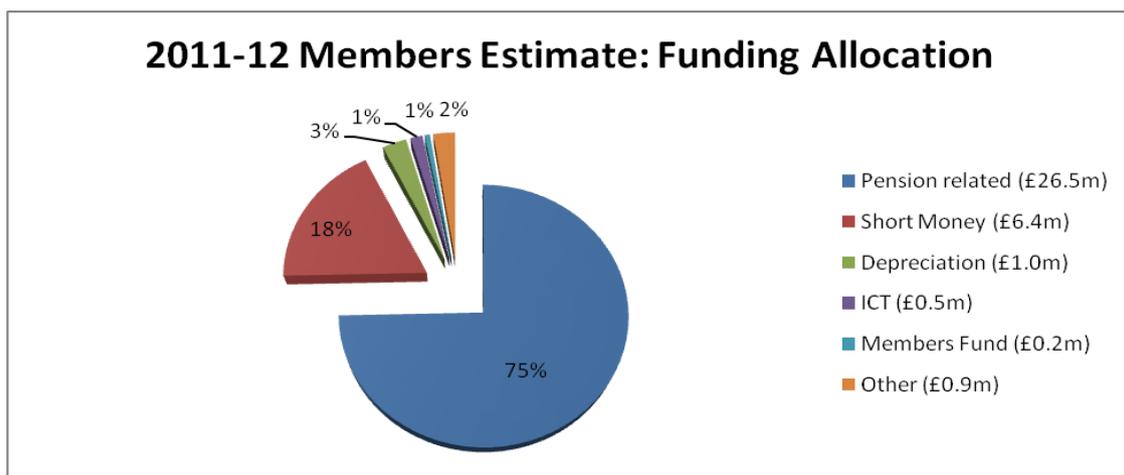
### Scope of the Estimate

Following the 2010 General Election responsibility for the administration of Members' salaries, expenses claims, travel and certain other costs were transferred to the Independent Parliamentary Standards Authority (IPSA) in accordance with the Parliamentary Standards Act 2009, as amended by the Constitutional Reform and Governance Act 2010. This has significantly reduced the scope of this Estimate. For 2011-12 the Members Estimate was restricted to providing the Exchequer contribution towards the cost of pensions for Members of Parliament, to provide provision for accrued pension liabilities arising from the Parliamentary Contributory Pension Fund (PCPF), payroll costs of Members appointed to specific parliamentary duties, the provision of ICT equipment to Members, financial assistance to Opposition parties to support them in the discharge of their parliamentary or representative functions (Short Money), an Exchequer contribution to the Members' Fund, provision of training for Members and their staff, payment for insurance, Members pay and allowances relating to earlier financial years, and other general costs and non-cash items.

The Constitutional Reform and Governance Act 2010 provides for the Exchequer contribution to the PCPF to be transferred to IPSA at a future date. The cost of running House services and the Parliamentary Estate are borne on the House of Commons Administration Estimate.

### Activities

An Estimate (HC921) consisting of £35.5 million resource and £0.2 million capital was agreed by the House of Commons for 2011-12. The greater part of the resource provision was to cover PCPF pension scheme expenditure (£26.5 million), which included the Exchequer contribution towards future benefits earned during the year (£14.5 million) together with a charge arising from the movement in the net pension deficit over the year (£12.0 million). The discount rate used to calculate pension liabilities is based on the current market rate of return on AA rated corporate bonds. A consequence has been the unpredictability of these pension costs during the year which has led to a significant underspend at the year end.



The total Estimate was significantly less than was provided in 2010-11 (£85.3 million) following the transfer of Members' salaries and allowances to IPSA. The previous year also included a technical accounting adjustment for the change in pension indexation (from RPI to CPI) which gave rise to a £63.0 million credit in the 2010-11 accounts. There was also lower expenditure on ICT equipment as the 2010-11 accounts reflected the replacement of all equipment allocated to Members immediately following the 2010 General Election.

Financial assistance to Opposition parties is available to help Opposition parties to carry out their parliamentary or representative business. This was budgeted at £6.4 million which, together with the pension scheme costs made up 93% of the total funding made available through the Estimate.

Members are entitled to five items of ICT equipment purchased from this Estimate for use in the performance of their parliamentary or representative duties. There was a major refresh of ICT equipment following the 2010 General Election and apart from some minor capital purchases only resource maintenance costs and depreciation charges arose during the year. The Commission agreed in May 2012 to include the provision of an iPad as one of the five pieces of ICT equipment available to Members.

The Members' Fund provides for ex-Members and their dependants who find themselves in difficult circumstances. Such payments are made at the discretion of the Trustees. It also pays certain "as of right" benefits for service as a Member prior to 1964. 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>;

### Oversight of Estimate

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All monies paid to Members of Parliament through the Estimate are governed by Resolutions of the House. Oversight of the Estimate is undertaken by the Members Estimate Committee (MEC), which has the same membership as the House of Commons Commission. 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 (*Chairman, by virtue of office*)

The Rt Hon Sir George Young Bt MP: Leader of the House of Commons (*by virtue of office*)

John Thurso MP: also Chairman of the Finance and Services Committee

The Rt Hon Hilary Benn MP

Sir Paul Beresford MP

Frank Doran MP

The membership of the Committee changed on 12 October 2011 when Angela Eagle MP replaced the Rt Hon Hilary Benn MP.

The Clerk of the House is the Accounting Officer for the Estimate. Although the House of Commons Management Board receives monthly updates on financial performance against the Members Estimate, it does not have any formal responsibility for the Estimate because the Board takes its authority from the House of Commons (Administration) Act 1978.

## Management Commentary

### Resources

The Statement of Parliamentary Supply shows an outturn of £29.5 million against an Estimate of £35.5 million for the year. This represents an underspend of £6.0 million (16.9%). This has primarily arisen from lower than planned expenditure on PCPF pension costs (£5.8 million) and ICT maintenance (£0.3 million).

Allowance	Planned £000s	Outturn £000s	Variance £000s
PCPF: Exchequer contribution	14,500	13,561	939
Charge arising from movement on pension deficit	12,000	7,139	4,861
Short Money	6,400	6,600	(200)
ICT: Maintenance	500	202	298
Depreciation	1,000	900	100
Members Fund	215	182	33
Other	885	881	4
<b>Total</b>	<b>35,500</b>	<b>29,465</b>	<b>6,035</b>

Fluctuations against both the original financial assumptions, especially the discount rate derived from the current rate of return on AA rated corporate bonds, and demographic assumptions make it difficult to plan the resource requirements of the PCPF scheme ahead of the financial year end.

Payments received by Opposition parties through Short Money are fixed, but subject to an RPI adjustment each year. The small overspend shown reflects an index movement that was different from that assumed at the time the Estimate was laid.

As explained elsewhere the Estimate for the previous year reflected the position before certain functions were transferred to IPSA together with a technical pension indexation adjustment, so the outturn of £1.8 million for 2010-11 is not directly comparable.

### Capital

An outturn of £65,000 arose against the Estimate provision of £200,000 giving rise to an underspend of £135,000. A small budget had been allocated for any additional equipment required following the refresh of ICT equipment to Members immediately after the 2010 General Election. In the event only a small amount of ICT equipment was purchased.

### Cash

A net cash outturn of £21.6 million arose against the Estimate of £22.6 million. This represents an underspend of £1.0 million (4.4%) which primarily reflects the lower than expected cash Exchequer contribution to the PCPF during the year. Other minor underspends against budget were offset by movements on monetary working capital.

### Net assets

The Statement of Financial Position shows a negative balance because of the significant pension liabilities arising from the PCPF. The net liability increased from £169.7 million at the 31 March 2011 to £185.9 million at the year end, an increase of £16.2 million (9.5%).

Most of the increase represents provision for future pension liabilities to be redeemed through pension payments made to Members, and as such will not be fully realised for many years. The actuarial review of the PCPF by the Government Actuary's Department shows the future liability increasing from £171.0 million at the 31 March 2011 to £186.5 million at the date of these accounts. The increase of £15.5 million (9.0%) represents an Exchequer contribution (£13.6 million) towards existing pension benefits less the additional benefits earned during the year after Member contributions (£14.5 million). These changes were offset by finance costs (£6.1 million) comprising the expected return on PCPF scheme assets (£27.5 million) less the interest on the pension scheme liabilities (£33.6 million), together with an actuarial loss (£8.4 million). A further breakdown and explanation of the PCPF valuation can be found in Note 12. Other net assets less current liabilities reduced from £1.3 million at the 31 March 2011 to £0.6 million at the year end, a decrease of £0.7 million (55.5%). This represents the depreciation of ICT assets (£0.9 million) and change in value of other current assets (£0.3 million) less IT additions (£0.1 million) and the reduction of trade and other liabilities (£0.4 million).

### **Residual issues from the 2010-11 accounts**

#### *(i) Legg Review*

Bad debts of less than £5,000 were included in the 2010-11 Members Resource Accounts. These have now been resolved with the agreement of the MEC and no debts remain outstanding.

#### *(ii) Cases under investigation*

The National Audit Office (NAO) reported an exception against its opinion on the 2010-11 accounts following the decision by the then Clerk of the House not to disclose the names of Members under investigation by the Police. All transaction details had been made available to the audit and the NAO had been provided with summary details of the amounts under investigation, but with the identities of the individuals anonymised. The request for further disclosure was refused by the then Clerk as it was considered such action would be inappropriate prior to a final decision on any referral to the Crown Prosecution Service (CPS). Details of all outstanding investigations have subsequently been made public through the Crown Prosecution Service.

#### *(iii) Standards and Privileges Committee*

During 2011-12 the Parliamentary Commissioner for Standards investigated a number of complaints about Members and recommended the House should recover £3,000, all of which has been repaid.

### **Resources required for 2012-13**

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The House of Commons has agreed an Estimate (HC1919) for 2012-13 with a net resource requirement of £32.0 million and capital provision of £0.2 million. The net resource requirement is £3.5 million less than the 2011-12 Estimate reflecting the change in the level of pension costs incurred in the previous year.

### **Auditors**

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

As Accounting Officer I am not aware of any relevant audit information of which the auditors are unaware. I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

**Going concern**

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Although the Statement of Financial Position at 31 March 2012 shows negative Taxpayers' Equity of £185.9 million this mainly reflects the inclusion of pension 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.

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 2012-13 has already been given. It is therefore appropriate to adopt a going concern basis for the preparation of the 2011-12 financial statements.

**Robert Rogers**  
**Accounting Officer**  
**10 July 2012**

## 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.

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.

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## Annual Governance Statement

### Governance framework

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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 of the day.

Two Estimates cover the direct expenditure of the House of Commons. The Administration Estimate covers the administrative costs of running the House of Commons as an institution, meeting 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. Following the establishment of the Independent Parliamentary Standards Authority (IPSA) in May 2010, the Members Estimate has been restricted to covering expenditure on pension contributions to the Parliamentary Contributory Pension Fund (PCPF), IT equipment provided to assist Members in their duties, financial assistance to the Opposition parties, an Exchequer contribution to the Members' Fund, the costs of insurance and training, and other associated costs and non-cash items.

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. While the MEC retains responsibility for the residual functions remaining within the Members Estimate, the Speaker's Committee on IPSA (SCIPSA) has taken on responsibility for the IPSA Estimate. The Members Allowance Committee, who advise the MEC, was nominated in the new Parliament in May 2011 to help manage the response to the January 2011 IPSA consultation exercise on Members' Allowances. Membership of the MEC is the same as the House of Commons Commission who have responsibility for the Administration Estimate. As Clerk of the House, and in my role as Accounting Officer and Chief Executive of the House Service, I have responsibility for ensuring the Resolutions of the House and directions from the MEC are properly put into effect.

Together with the MEC, I am supported in this role by the Members Estimate Audit Committee (MEAC). Membership of the Committee is the same as that of the Administration Estimate Audit Committee and includes Members of Parliament and external experts. The Chair is currently one of the external members of the House of Commons Management Board.

The cost of administration of Members Estimate expenditure falls to the House of Commons Administration Estimate. These aspects are governed by both a delegation from the House of Commons Commission to the Management Board, and the Parliamentary (Joint Departments) Act 2007 in respect of PICT.

The House Service has a range of policies and procedures that form part of its governance arrangements. These include rules on finance and procurement together with a mandated system of risk management. As Accounting Officer for the Members Estimate I am mindful of HM Treasury's guidance on the scope of the Governance Statement, as it applies to Government departments, but as the House's governance circumstances are different from those of Government departments, the content of this statement will therefore also differ. The same is true of the extent to which the management of the Members Estimate is able to follow the Treasury's Corporate Governance Code. However, I am content that the House Administration's governance and structure is appropriate, and that an element of non-executive challenge and scrutiny is available through the external membership of the Audit Committee and the Board.

### Responsibilities attached to specific areas of expenditure

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On 24 October 2011 the power to establish a scheme making provision for pensions to Members of Parliament and certain office holders under the Constitutional Reform and Governance Act 2010 passed to IPSA by order of the House of Commons. On the same date, responsibility for the

oversight of the remains of Ministerial pensions within the PCPF, paid under the Ministerial and Other Salaries Act 1975, was transferred to the Minister for the Civil Service. The Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 as amended up to 23 October 2011 have been reconstituted as the initial member pension scheme rules. These will apply, subject to any further amendments until such time as new schemes for Members of Parliament and Ministerial pensions are created.

The enactment of the Constitutional Reform and Governance Act 2010 also affected the structure of the PCPF Trustee Board. Incumbent trustees have been reduced from ten to eight, with the remaining trustees being reconstituted as the first Member nominated trustees. A trustee representing IPSA, together with another representing the Minister for the Civil Service, have been appointed. The reconstituted PCPF trustee board continue to manage the administration of the fund. The Secretariat that assists them in this role continues to be drawn from House of Commons staff employed in the Department of Finance. The PCPF reimburses the House Administration for all staff costs associated with these Secretariat duties.

At present, funding of the Exchequer contribution towards current service costs and accounting for the historic liabilities remain with the House of Commons Members Estimate. As 75% of the Members Estimate covers PCPF related expenditure, further consideration has been given to the management of these accounting arrangements. At present the pension scheme assets are managed by the PCPF trustees and accounted for separately in the PCPF Accounts, while the scheme liabilities are reported in the House of Commons Members Accounts. An approach has made to both IPSA and the PCPF Trustees about the possibility of transferring the Members Estimate responsibilities to other Estimates and relevant accounts, but no immediate changes are planned for 2012-13.

The controls for financial assistance to Opposition parties (Short Money) which accounts for around 18% of the Members Estimate differs 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 CCAB-qualified external auditors and I have been provided with audit certificates from each of the parties who have claimed Short Money.

The Office of the Parliamentary Commissioner for Standards deals with the application of the Code of Conduct and related Rules that apply to Members of Parliament. This includes the registration of financial interests held by Members and the investigation of complaints about Members who have allegedly breached the Code or related Rules. When the Parliamentary Commissioner for Standards recommends a financial sanction against a Member it is the responsibility of the House Service to recover and account for the receipt. All sanctions imposed during 2011-12 have been recovered.

### **Management of risk**

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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 risk environment of the Members Estimate has diminished with the transfer of functions to IPSA. Those residual issues arising on the pre-IPSA Members' expenses scheme, referred to in the 2011-12 Members Resource Accounts (HC1424), have now been concluded. Those remaining and emerging risks have been managed alongside the risks associated with services delivered through the Administration Estimate. The Management Board reviewed its high-level risks during the spring of 2011 and agreed that from 2011-12 the following key risks should be managed and monitored at Board level:

Risk	Description
Relations with Member bodies	The ineffective management of relationships with Member bodies <ul style="list-style-type: none"> <li>• Speaker;</li> <li>• MEC;</li> <li>• MEAC.</li> </ul>
Relations with the House of Lords	The possibility that differing interests between the two Houses may limit the ability of the House of Commons Service to achieve its strategic goals.
Reputational issues	The House suffers a loss of reputation due to ineffective or inadequate action
Capability and capacity	The House Service does not have the right capability or capacity (including effective prioritisation mechanisms) to deliver appropriate Member services.
Staff morale	Low staff morale limits the ability of the House Service to achieve its strategic goals

The Management Board adopted a revised Risk Management Policy and Strategy in May 2011, setting out clear management roles and responsibilities for the House Service, including the application of the 'single platform' risk management governance model which works on the premise that risk is managed at the most appropriate level within the organisation. The Risk Management System is reviewed annually by Internal Audit. The most recent Internal Audit review (April 2012) noted the progress made over the year, reflected in a increase in Audit opinion on the level of assurance of both the design and operating effectiveness of the risk management system currently in place, while identifying further work to be done on embedding the system of risk management.

The purchase and maintenance of Members ICT equipment, together with the ICT network and infrastructure, is managed by PICT. The delivery of PCPF related services are managed through the Department of Finance while the remaining functions on the Members Estimate are handled within the Department of HR & Change.

### Review of effectiveness

#### *(i) The evidence base*

I have obtained evidence of the organisation's effectiveness through a variety of means. The most important are: the annual letters of assurance from the head of each House department, which for the Members Estimate are principally the Director General of HR & Change, Director of Finance and the Director of PICT; separate letters of assurance on information security (from the Senior Information Risk Owner) and business resilience (from the Chair of the Business Resilience Group); the Head of Internal Audit's annual report and opinion; and advice and reports from the Members Estimate Audit Committee whose annual report is appended to these accounts. In addition, account has been taken of the monthly corporate performance and risk reports and the findings of the survey of Members of Parliament about services provided to them by the House.

#### *(ii) Findings on effectiveness*

##### *Financial management*

The creation of a new free-standing Department of Finance from April 2011 has helped focus work on improving financial management. Significant progress has been made in 2011-12, although there is more work to do to reach the required standard. A Financial Improvement Plan has been agreed and is in the process of being implemented.

A new Medium Term Financial Plan (MTFP) was introduced covering the period to 2015-16, which included planned expenditure for the Members Estimate. This was then used to agree the Estimate for 2012-13.

During 2011-12, financial planning, budgetary control and in-year financial monitoring and reporting have improved, with a monthly report on the financial forecast outturn against the Members Estimate

being submitted to the Management Board. Previously a quarterly report only was submitted to the Accounting Officer.

New Finance and Procurement Rules were developed, and the House Administration System (HAIS), which holds transactional and other management information, was renewed and went live on 2 April 2012. The new system will provide better management information. Although a counter-fraud policy and response plan has been in place in the past, the Management Board agreed in the year that a more pro-active approach to this risk was required and a funded programme of work has been agreed to develop and implement this function in 2012-13.

#### *Procurement*

Good progress has also been made on procurement in 2012-13, including addressing weaknesses identified by Internal Audit, but there is a significant amount of further work required to ensure that all contractual arrangements are being effectively managed, and that management expertise is embedded in the organisation.

Improvements during the year include the agreement of new procurement rules, a fresh mandate for the Commercial Services Directorate (CSD) from the Management Board, a review of the procurement function and the adoption of a two year procurement improvement plan. CSD will also establish a corporate policy for the management of contracts.

All Members ICT equipment was renewed immediately after the 2010 General Election. The arrangements for the allocation of equipment were reviewed in 2010-11. The MEC has subsequently agreed to allow Members one iPad as part of their ICT equipment allocation from 2012-13.

#### *Business resilience*

There have been no major failures of our business resilience during the year. Some additional resource supported the coordination and development of Parliament's business resilience, in response to early internal audit recommendations. Parliament was awarded the Certificate of Alignment to the industry Business Continuity standard (BS25999-2:2007) by the Cabinet Office and we conducted our annual test of the Incident Management Framework (IMF) on 2 March. It is clear however, from the IMF exercise report and work by internal audit that more needs to be done, especially in increasing staff awareness of their roles and responsibilities in this area, in the structure and resourcing of our incident management system and on our plans for emergency relocation. Work will be done through the Business Resilience Group to address these issues, with the aim of Parliament aligning to the new international standard for Organisational Resilience (ISO 22301) by 2013.

#### **Conclusion**

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Adequate controls have been maintained for expenditure incurred through the Members Estimate. The controls will continue to be refined to ensure transactions are properly controlled and risks managed, pending any future decision on the continuance of the Members Estimate itself.

**Robert Rogers**  
**Accounting Officer**  
**10 July 2012**

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

I have audited the financial statements of the House of Commons: Members for the year ended 31 March 2012. The financial statements comprise: 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. I have also audited the Statement of Parliamentary Supply 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 the auditor

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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

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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 circumstances of the House and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword 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.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

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In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012, and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

**Opinion on financial statements**

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In my opinion:

- the financial statements give a true and fair view of the state of the affairs of the House of Commons: Members as at 31 March 2012 and of its 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**

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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**

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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 are not in agreement with the accounting record; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect House of Common's application of best practice, including HM Treasury's guidance.

**Report**

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During my audit of the 2010-11 accounts 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 that account I requested access to this information, which was withheld by the then Clerk of the House. As a result I was unable to conclude on the level of irregular expenditure in those financial statements and I qualified my regularity audit opinion accordingly.

My audit of the 2011-12 accounts has determined that all of the investigations into Members' expenses have been dropped. I have received assurances from the Accounting Officer that there are no new investigations into Members' expenses in 2011-12. I am therefore content that there are no outstanding cases, although I have not been provided with the names of those Members who are no longer under investigation. This, alongside the fact the House had no responsibility for reimbursement of Members' expenses during 2011-12, leads me to conclude that I am able to issue an unmodified audit opinion on the regularity of transactions brought to account within the 2011-12 accounts

**Amyas C E Morse**

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
London, SW1W 9SP

11 July 2012

## Statement of Parliamentary Supply

## Summary of Resource Outturn and Capital Outturn 2011-12

	2011-12 Estimate			2011-12 Outturn			2010-11 Outturn	
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted Outturn compared with Estimate: saving/(excess) <sup>1</sup>	
	£000	£000	£000	£000	£000	£000	£000	
<b>Departmental Expenditure Limit</b>								
-Resource	<b>23,500</b>	-	23,500	<b>22,326</b>	-	22,326	1,174	56,791
-Capital	<b>200</b>	-	200	<b>65</b>	-	65	135	3,460
<b>Annually Managed Expenditure</b>								
-Resource	<b>12,000</b>	-	12,000	<b>7,139</b>	-	7,139	4,861	7,959
-Pension liabilities adjustment	-	-	-	-	-	-	-	(63,000)
<b>Total</b>	<b>35,700</b>	-	<b>35,700</b>	<b>29,530</b>	-	<b>29,530</b>	<b>6,170</b>	<b>5,210</b>
Total Resource	35,500	-	35,500	29,465	-	29,465	6,035	1,750
Total Capital	200	-	200	65	-	65	135	3,460
<b>Total</b>	<b>35,700</b>	-	<b>35,700</b>	<b>29,530</b>	-	<b>29,530</b>	<b>6,170</b>	<b>5,210</b>

## Net Cash Requirement 2011-12

	2011-12 Estimate	2011-12 Outturn	Outturn compared with Estimate: saving/(excess) <sup>1</sup>	2010-11 Outturn
	£000	£000	£000	£000
Net cash requirement	<b>22,600</b>	<b>21,575</b>	1,025	67,888

<sup>1</sup> Explanations of variations are shown in the Management Commentary.

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

All expenditure is classified as Programme and therefore no Administration Cost Limit or outturn is disclosed.

The Notes on pages 23 to 37 form part of these Accounts

**Statement of Comprehensive Net Expenditure**

for the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
<b>Programme Costs</b>			
Members' salaries	5	124	15,127
Members' pensions	5	13,561	14,340
Grants	6	6,802	6,193
Other costs	6	8,978	29,090
Pension adjustment arising from change in past service cost	12	-	(63,000)
<b>Net Operating Costs for the year ended 31 March 2012</b>		<b>29,465</b>	<b>1,750</b>
<b>Other Comprehensive Net Expenditure</b>			
Net (gain)/loss:			
Pension liabilities due to changes in actuarial assumptions	12	8,400	-
<b>Total Comprehensive Expenditure for the year ended 31 March 2012</b>		<b>37,865</b>	<b>1,750</b>

The Notes on pages 23 to 37 form part of these Accounts

**Statement of Financial Position**

as at 31 March 2012

		2011-12	2010-11
	<u>Note</u>	<u>£000</u>	<u>£000</u>
<b>Non-current assets:</b>			
Property, plant and equipment	7	2,004	2,838
<b>Total non-current assets</b>		<b>2,004</b>	<b>2,838</b>
<b>Current assets:</b>			
Trade and other receivables	9	151	195
Cash and cash equivalents	10	21	251
<b>Total current assets</b>		<b>172</b>	<b>446</b>
<b>Total Assets</b>		<b>2,176</b>	<b>3,284</b>
<b>Current liabilities</b>			
Trade and other payables	11	(1,613)	(2,020)
<b>Total current liabilities</b>		<b>(1,613)</b>	<b>(2,020)</b>
<b>Non-current assets less net current liabilities</b>		<b>563</b>	<b>1,264</b>
<b>Non-current liabilities</b>			
Provision for pension liability	12	(186,461)	(170,922)
<b>Total non-current liabilities</b>		<b>(186,461)</b>	<b>(170,922)</b>
<b>Total assets less liabilities</b>		<b>(185,898)</b>	<b>(169,658)</b>
<b>Taxpayers' equity:</b>			
General Fund		(185,898)	(169,658)
<b>Total taxpayers' equity</b>		<b>(185,898)</b>	<b>(169,658)</b>

**Robert Rogers**  
**Accounting Officer**  
**10 July 2012**

The Notes on pages 23 to 37 form part of these Accounts

**Statement of Cash Flows**

for the year ended 31 March 2012

		2011-12	2010-11
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Net operating cost	5,6	(29,465)	(1,750)
Adjustments for non-cash transactions	6	8,072	(54,188)
(Increase)/Decrease in trade and other receivables	9	60	38
Less movements in receivables relating to items not passing through the SCNE		(80)	116
Increase/(Decrease) in trade payables	11	(407)	(8,854)
Less movements in payables not passing through the SCNE		310	210
<b>Net cash outflow from operating activities</b>		<b>(21,510)</b>	<b>(64,428)</b>
<b>Cash flows from investing activities</b>			
Purchase of equipment	7	(65)	(3,460)
<b>Net cash outflow from investing activities</b>		<b>(65)</b>	<b>(3,460)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		21,509	67,575
From Consolidated Fund (Supply) – prior year		146	-
<b>Net Financing</b>		<b>21,655</b>	<b>67,575</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>80</b>	<b>(313)</b>
Receipts due to the Consolidated Fund	4	87	397
Payments of amounts due to the Consolidated Fund		(397)	(410)
<b>Net increase/(decrease) in cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(230)</b>	<b>(326)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>251</b>	<b>577</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>21</b>	<b>251</b>

The Notes on pages 23 to 37 form part of these Accounts

## Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2012

	Note	General Fund £000
<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	12	-
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 – drawn 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>
<b>Changes in taxpayers' equity for 2011-12</b>		
Net gain/(loss) on pension liabilities due to changes in actuarial assumptions	12	(8,400)
Non-cash charges – auditor's remuneration	6	50
Net operating cost for the year		(29,465)
<b>Total recognised income and expense for 2011-12</b>		<b>(37,815)</b>
Net Parliamentary Funding – draw down		21,509
Net Parliamentary Funding – deemed		-
Supply (payable)/receivable	9	66
		<b>21,575</b>
<b>Balance at 31 March 2012</b>		<b>(185,898)</b>

The Notes on pages 23 to 37 form part of these Accounts

## Notes to the 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.

#### 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

All costs incurred on the Members Estimate are treated as programme expenditure. The cost of administering the Members Estimate expenditure 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, or receipts of insurance payments for lost or damaged computer equipment, are surrendered to the Consolidated Fund.

#### 1.4 ICT equipment

Members are provided with ICT equipment to carry out their Parliamentary and representative duties. All ICT equipment that is attributable to specific workstations are 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 Pensions

The Parliamentary Contributory Pension Fund (PCPF) is a funded pension scheme which generates a significant liability on the Statement of Financial Position. 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 the methodology adopted for valuing pension scheme assets and liabilities can be found at Note 12.

#### 1.6 Grants payable

These include financial assistance provided to Opposition parties and an Exchequer contribution to the Members' Fund. All payments are made in accordance with Resolutions of the House of Commons.

#### 1.7 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.

#### 1.8 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. Net Outturn

### 2.1 Analysis of net resource outturn by section

	Outturn Programme			2011-12			2010-11
	Gross	Income	Net	Total	Net Total	Estimate Net Total compared to Estimate	Outturn Total
	£000	£000	£000	£000	£000	£000	£000
<b>Spending in Departmental Expenditure Limit</b>							
Members' salaries, allowances and other costs	22,326	-	22,326	<b>22,326</b>	23,500	1,174	56,791
<b>Annually Managed Expenditure</b>							
Provisions	7,139	-	7,139	<b>7,139</b>	12,000	4,861	(55,041)
<b>Total</b>	<b>29,465</b>	<b>-</b>	<b>29,465</b>	<b>29,465</b>	<b>35,500</b>	<b>6,035</b>	<b>1,750</b>

### 2.2 Analysis of net capital outturn by section

	2011-12			2010-11		
	Outturn		Net	Estimate		Net
	Gross	Income		Net	Net Total compared with Estimate	
<b>Spending in Departmental Expenditure Limit</b>						
Voted	65	-	65	200	135	3,460
<b>Total</b>	<b>65</b>	<b>-</b>	<b>65</b>	<b>200</b>	<b>135</b>	<b>3,460</b>

### 3. Reconciliation of Net cash Requirement to increase/(decrease) in cash

	2011-12	2010-11
	£000	£000
Net cash requirement	(21,575)	(67,888)
From the Consolidated Fund (Supply) –current year	21,655	67,575
Amounts due to the Consolidated Fund received and not paid over	87	397
Amounts due to the Consolidated Fund received in prior year and paid over	(397)	(410)
<b>Net Increase/(decrease) in cash held</b>	<b>(230)</b>	<b>326</b>

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

The following income relates to the House and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Outturn 2011-12		Outturn 2010-11	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	£000	£000	£000	£000
Non-operating income and receipts	(81)	<i>(87)</i>	(367)	<i>(397)</i>
Total income payable to the Consolidated Fund	<b>(81)</b>	<b><i>(87)</i></b>	<b>(367)</b>	<b><i>(397)</i></b>

The non-operating receipts comprise:

- (a) Recoveries in relation to the Legg Review of past ACA payments (£12,476) from former Members.
- (b) Voluntary payments made by Members (£45,960). This includes repayments against expenses claimed and returns of rental and other deposits following the General Election.
- (c) Other recoveries (£28,548) include repayments arising from the Standards and Privileges Committee.

Consolidated fund income is not accounted for through the statement of Comprehensive Net Expenditure.

### 5. Members' costs

#### 5.1 Members' costs comprise:

	Note	2011-12	2010-11
		£000	£000
Members' salaries		114	4,296
Resettlement Grant		1	10,398
London Cost Allowance		-	27
Social security costs		9	406
		124	15,127
Other pension costs	12	13,561	14,340
<b>Total net costs</b>		<b>13,685</b>	<b>29,467</b>

Included in the Members' salary costs are the additional salaries for the Chairman of Ways and Means (£41,370) and the two Deputy Chairmen of Ways and Means (£36,360 each). The significant reduction in salary related expenditure reflects the transfer of functions to IPSA which took place from the 2010 General Election.

### **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 and the next actuarial report is in the process of being completed.

**6. Other costs**

	Note	2011-12		2010-11 <sup>1</sup>	
		£000	£000	£000	£000
<b>Cash Items</b>					
Winding Up Allowance		19		6,903	
Staffing Expenditure		1		6,470	
Central service provision <sup>2</sup>		752		2,536	
Staff redundancy		-		2,338	
Contributions to Members' staff pensions		9		651	
Administrative and Office Expenditure		14		760	
Personal and Additional Accommodation Expenditure		-		190	
Communications Expenditure		-		26	
Travel Expenditure		-		176	
Insurance		111		161	
Temporary secretarial assistance		-		67	
			<b>906</b>		<b>20,278</b>
<b>Grants to other bodies</b>					
Financial assistance to Opposition parties		6,600		5,948	
Members' Fund		182		215	
Other		20		30	
<b>Subtotal</b>			<b>6,802</b>		<b>6,193</b>
<b>Non-cash items</b>					
Depreciation and amortisation of fixed assets:					
Property, plant & equipment	7	900		789	
Reduction in provision for bad and doubtful debt	9	(17)		(16)	
Pension liability provision	12	7,139		7,959	
Pension liability adjustment	12	-		(63,000)	
Audit fee		50		80	
<b>Subtotal</b>			<b>8,072</b>		<b>(54,188)</b>
<b>Grand Total</b>			<b>15,780</b>		<b>(27,717)</b>

<sup>1</sup> The payment of Members' Allowances transferred to IPSA following the 2010 General Election.

<sup>2</sup> Expenditure shown includes current IT (£393,320) and training (£206,680).

## 7. Property, plant and equipment

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

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
<b>Cost or valuation</b>		
<b>At 1 April</b>	6,229	3,198
Additions	65	3,460
Disposals	(2,643)	(429)
<b>At 31 March</b>	<u>3,651</u>	<u>6,229</u>
<b>Depreciation</b>		
<b>At 1 April</b>	3,390	3,031
Charge in year	900	789
Disposals	(2,643)	(429)
<b>At 31 March</b>	<u>1,647</u>	<u>3,391</u>
<b>Net book value at 31 March</b>	<b>2,004</b>	<b>2,838</b>

## 8. Financial Instruments

As the cash requirements 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. The pension fund (PCPF) assets and liabilities are managed independently by the PCPF trustees.

## 9. Trade receivables and other current assets

	<u>As at 31</u>	<u>As at 31</u>
	<u>March 2012</u>	<u>March 2011</u>
	<u>£000</u>	<u>£000</u>
<b>Amounts falling due within one year:</b>		
Members <sup>1</sup>	15	46
Deposits and advances	-	1
Prepayments	59	-
Other receivables	14	21
Provision for doubtful debt <sup>2</sup>	(3)	(19)
	<u>85</u>	<u>49</u>
Amounts due from the Consolidated Fund in respect of supply	66	146
	<u>151</u>	<u>195</u>

<sup>1</sup>The Members receivables figure represents the amount due as at 31 March 2012 and includes:-

	Amount outstanding at 31 March 2011	Repaid or reduced on appeal in 2011-12	Amount outstanding at 31 March 2012	Repaid or entered into contract to repay	Adjustment to be reflected in the 2012-13 accounts <sup>2</sup>
	£000s	£000s	£000s	£000s	£000s
Legg Review of ACA payments:					
- Former Members	32	20	12	12	-
Amounts to be recovered from current Members where claims had inadequate supporting evidence	8	5	3	-	3
Standards and Privileges Committee reports					
- Prior years	6	6	-	-	-
<b>Total</b>	<b>46</b>	<b>31</b>	<b>15</b>	<b>12</b>	<b>3</b>

<sup>2</sup>The provision for doubtful debt includes recoveries sought from a Member at 31 March 2012. Most supporting documentation has now been received. The doubtful debt will be written off in the 2012-13 accounts following advice from the Members Estimate Committee.

**10. Cash and cash equivalents**

	As at 31 March 2012	As at 31 March 2011
	£000	£000
Balance at 1 April	251	577
Net change in cash and cash equivalents	(230)	<b>(326)</b>
<b>Balance at 31 March</b>	<b>21</b>	<b>251</b>
The following balances at 31 March were held at:		
Office of HM Paymaster General	21	251
<b>Balance at 31 March</b>	<b>21</b>	<b>251</b>
Amounts issued from the Consolidated Fund but not spent at year end	(66)	(146)
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	87	397
	<b>21</b>	<b>251</b>

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

	As at 31 March 2012	As at 31 March 2011
	£000	£000
<b>Amounts falling due within one year</b>		
Other taxation and social security	-	42
Other payables – current	15	32
Accruals and deferred income	1,511	1,543
	<b>1,526</b>	<b>1,617</b>
Consolidated Fund extra receipts due to be paid to the Consolidated Fund		
- Received	87	397
- Receivable	-	6
	<b>1,613</b>	<b>2,020</b>

## 12. 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.

### Contributory rates and benefits provided

The level of benefits provided under the PCPF did not change during 2011-12, although responsibility for setting the level of future benefits transferred from the Leader of the House of Commons to IPSA, in respect of Members of Parliament, and the Minister for the Civil Service for Ministerial pensions.

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. The Constitutional Reform and Governance Act 2010 made provision for IPSA and the Minister for the Civil Service to alter the Exchequer contribution to the PCPF in the future if required, but the existing process of the Government Actuary's Department (GAD) recommending the rate payable in their triennial valuations of the fund remains in place.

#### **(a) PCPF scheme member contributions**

##### *(i) Members of Parliament*

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 scheme members, the Exchequer and investment returns. During 2011-12 scheme members could 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.

Member contributory rates have been increased by 1.85% from 1 April 2012 to take account of increases to public sector pension scheme contributions from 1 April 2012 announced by the Government following the publication of the Independent Public Service Pensions Commission: Final Report (Hutton Report) on 10 March 2011. The IPSA scheme for Members of Parliament also made other minor changes to the scheme rules including allowing Members a three month period in which to switch their pension accrual rate, and the ability to cancel added years contracts. IPSA has announced the intention to 'conduct a thorough review of pay and pensions, announcing a way forward by the end of 2013'. Any new benefits scheme is therefore unlikely to be introduced before 1 April 2014.

##### *(ii) Ministerial pensions*

PCPF benefits are provided for the additional salary entitlement attached to certain Ministerial posts in both Houses. The Minister for the Civil Service scheme previously adopted the same scheme member contributory rates to those shown above, but from 1 April 2012 different additional increases to these rates will be applied. In future scheme member contributory rates will be dependent on the level of Ministerial responsibilities held:

- Secretaries of State, the Leader of the Opposition in the Commons and Speaker in the House of Lords will pay an additional 2.4% of Ministerial pay;
- Ministers of State, the Government Chief Whip, the Leader of the Opposition in the Lords, and both the Chairman and Deputy Chairman of Committees of the House of Lords will pay an additional 1.6% of Ministerial pay; and
- Parliamentary Under-Secretaries, Government and Opposition Whips will pay an additional 1% of Ministerial pay.

Pensions provided to other Offices of State, including the Prime Minister and Speaker of the House of Commons, are paid directly from the Consolidated Fund.

The Minister for the Civil Service has indicated that further contribution increases for both Members of Parliament and Ministers within the PCPF will be considered in 2013-14 and 2014-15.

**(b) Exchequer contribution**

The Government Actuary's Department (GAD) laid its latest report on the PCPF before the House of Commons on 27 March 2012. This has increased the Exchequer contribution payable to the PCPF from 28.7% to 29.0% from 1 April 2012, to meet current service costs of 20.4% (20.2% in 2011-12) plus a further 8.6% (8.5% in 2011-12) to finance the historic pension liability deficit. GAD have stated these figures will be reviewed in the light of any increases in contribution rates or further changes to the level of benefits provided at the date of their next valuation.

**(c) Member of Parliament staff pensions**

Employees of Members of Parliament automatically join the Portcullis Pension Plan, although they can opt out if they wish. All employees within the Plan benefit from a contribution of 10% of their basic earnings. This is administered by IPSA from the staffing allowance provided to Members.

**Membership statistics**

Participation in the PCPF at the outset of the year was as follows:

**(a) Current Member participation in the scheme at 1 April 2011**

	<b>Members of Parliament within PCPF</b>	<b>Ministerial pensions within PCPF</b>
Number accruing benefits at 1/40 <sup>th</sup>	563	160
Number accruing benefits at 1/50 <sup>th</sup>	41	15
Number accruing benefits at 1/60 <sup>th</sup>	30	6
Total number	634	181
Average age (years)	50.5	54.7
Average accrued pension (per annum)	£16,600	£2,700

**(b) Incumbent pensioners at 1 April 2011**

	<b>Former Members</b>	<b>Surviving dependents of former Members</b>	<b>Active members in receipt of statutory Guaranteed Minimum Pension</b>	<b>Members aged over 75 with an abated pension</b>	<b>Total</b>
Number of pensioners	665	284	9	7	965
Average age (years)	73.2	74.6	71.2	78.6	73.6
Average pension in payment (per annum)	£21,100	£12,100	£5,900	£36,500	£18,400
Total cost pensions in payment (per annum)	£14.03 million	£3.42 million	£0.05 million	£0.26 million	£17.76 million

**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 2011-12 and previous years for current, former and retired Members. 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.

*(i) Demographic assumptions*

The demographic assumptions adopted include mortality rates (both in service and in retirement), withdrawals from service, and ages of dependants.

## (a) Life expectancy of healthy pensioners at age 65

	As at 31 March 2012		As at 31 March 2011	
	Male (years)	Female (years)	Male (years)	Female (years)
Current pensioners	24.9	26.1	24.4	25.0

## (b) Rate of turnover at General Elections

Age at Election date	Proportion of Members leaving the House of Commons
Under 63	25%
63 to 75	80%
Over 75	100%

*(ii) Financial assumptions*

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 GAD.

	As at 31 March 2012	As at 31 March 2011
Rate of return (discount rate)	4.9%	5.7%
Rate of increase:		
- Salaries	4.7%	5.3%
- Pension in payment/deferred	2.5%	3.0%
CPI rate	2.5%	3.0%

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:

	As at 31 March 2012	As at 31 March 2011
Equities	6.2%	7.2%
UK Government bonds	2.7%	4.2%
Other bonds	4.0%	5.0%
Cash	2.7%	4.2%

The results of actuarial calculations are inherently uncertain because of the assumptions made, but it is estimated the changes in assumptions have added around £29.2 million to the actuarial liability. A sensitivity analysis prepared by the actuaries at 31 March 2011 suggests that changes to the main assumptions could have a significant impact on the total pension liability:

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

### **Movement on pension liability**

The value of liabilities at 1 April 2012 has been calculated using data from the 2011 actuarial valuation rolled forward to 31 March 2012. Based on the financial and demographic assumptions applicable at the beginning of 2010-11 the current service cost for the year ended 31 March 2012 is estimated to be 30.6% of pensionable salaries (31.6% in 2010-11). This is equivalent to a cost of approximately £14.5 million. A projected estimate of the current service cost at 31 March 2013, to be used in the 2012-13 accounts, is 32.8%.

#### ***(i) Total movement in net liability***

	2011-12	2010-11
	£ million	£ million
Present fair value of scheme liabilities (see ii below)	612.6	589.4
Less: fair value of scheme assets (see iii below)	(426.1)	(418.4)
<b>Net liability</b>	<b>186.5</b>	<b>171.0</b>

#### ***(ii) Movement in actuarial liability***

	2011-12	2010-11
	£ million	£ million
Historic actuarial liability brought forward from previous year	589.4	629.0
Movement in the year due to:		
Future benefits earned from service during 2011-12 (current service cost):		
- Funded by the House <sup>1</sup>	14.5	15.4
- Funded from regular Member contributions	5.1	5.3
- Enhanced benefits funded by additional Member contributions	0.2	0.3
Actuarial adjustment arising from change in pension indexation <sup>2</sup>	-	(63.0)
Benefits paid out in respect of retired Members <sup>3</sup>	(19.6)	(27.8)
Interest on scheme liability <sup>4</sup>	33.6	33.3
Changes in assumptions adopted <sup>5</sup>	29.2	(2.6)
Experience loss <sup>6</sup>	(39.8)	(0.6)
Rounding adjustment	-	0.1
<b>Actuarial liability at end of year</b>	<b>612.6</b>	<b>589.4</b>

<sup>1</sup> Figures reflect both a reduction in the contribution rate from 31.5% (2010-11) to 30.6% (2011-12) and changes in scheme membership.

<sup>2</sup> The change in pension indexation from Retail Prices Index (RPI) to the Consumer Prices Index (CPI) created a one-off technical accounting adjustment in 2010-11.

<sup>3</sup> Additional payments arose in 2010-11 following the General Election.

<sup>4</sup> Notional interest cost of funding the pension scheme liability.

<sup>5</sup> This represents the future impact of changes to the assumptions (see section on page 33) which have been adopted at 31 March 2012 (e.g. reduced discount and inflation rates)

<sup>6</sup> Figures represent the impact of changes in salary and some other assumptions since the 2008 revaluation of the scheme. Actual salary increases since 2008 have been lower than previously assumed.

<i>(iii) Movement in assets</i>	2011-12	2010-11
	£ million	£ million
Value of scheme assets brought forward from 2010-11	418.4	402.9
Movement in year due to:		
Expected return on scheme assets	27.5	26.6
Difference between actual return and expected return on scheme assets	(18.9)	(3.2)
Exchequer contribution to the scheme	13.6	14.3
Member contributions towards future benefits	5.3	5.6
Less: benefits paid out in respect of retired Members	(19.6)	(27.8)
Rounding difference	(0.2)	-
<b>Closing fair value of scheme assets</b>	<b>426.1</b>	<b>418.4</b>

At 31 March 2012 the scheme assets were comprised:

	2011-12
	£ million
Investments brought forward:	
Equities	257.9
Property	73.8
Bonds	78.3
Cash and other assets	25.8
Investment liabilities	(12.8)
Current assets and cash at bank	4.9
Current liabilities	(1.8)
<b>Closing fair value of scheme assets</b>	<b>426.1</b>

<i>(iv) Movement in deficit during the year</i>	2011-12	2010-11
	£ million	£ million
Deficit brought forward from 2010-11	(171.0)	(226.0)
Rounding in brought forward balance	(0.1)	-
Future benefits funded by the House	(14.5)	(15.4)
Exchequer contribution to the scheme	13.6	14.3
Actuarial adjustment arising from change in pension indexation	-	63.0
Finance cost <sup>1</sup>	(6.1)	(6.9)
Actuarial loss <sup>2</sup>	(8.4)	-
<b>Deficit in scheme at end of year</b>	<b>(186.5)</b>	<b>(171.0)</b>

The deficit movement (£15.5 million) during the year is charged to the Estimate (£7.1 million in Note 6) with the balance (£8.4 million) being set against the General Fund in the Statement of Financial Position. The Estimate charge represents the Current Service Cost funded by the House (£14.5 million) plus the finance cost (£6.1 million) less the Exchequer contribution to the scheme (£13.6 million in Note 5) plus a rounding difference (£0.1 million).

<sup>1</sup> Difference between expected return on scheme assets (£27.5 million) and interest cost of funding scheme liabilities (£33.6 million).

<sup>2</sup> Figure represents the experience loss arising on pension liabilities (£39.8 million) less difference between the actual and expected return on scheme assets (£18.9 million) and changes in assumptions adopted (£29.2 million).

**Analysis of adjustments trends**

An analysis of the pension fund adjustments shows:

	2011-12	2010-11	2009-10	2008-09	2007-08
	£000	£000	£000	£000	£000
<b>Finance costs (return on scheme assets less interest on liabilities):</b>					
Amount	(6,100)	(6,900)	(10,900)	(6,200)	900
As a percentage of the scheme assets at the Balance Sheet date	3.27%	4.04%	4.82%	4.3%	0.9%
<b>Experienced scheme liabilities gain/(loss):</b>					
Amount	39,800	600	6,400	5,900	(1,400)
As a percentage of the present value of the scheme liabilities at the Balance Sheet date	(21.36)%	(0.35)%	2.83%	4.1%	1.4%
<b>Total actuarial (gain)/loss:</b>					
Amount	(8,400)	-	(75,800)	(39,300)	7,700
As a percentage of the present value of the scheme liabilities at the balance sheet date	4.51%	-	33.5%	27.5%	7.9%

**PCPF accounts**

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

**13. Capital commitments**

There were no capital commitments as at 31 March 2012 (none as at 31 March 2011).

**14. Contingent liabilities and contingent assets**

There were no contingent liabilities at 31 March 2012 (none as at 31 March 2011).

**15. Losses and special payments**

	2011-12	2010-11
	£000	£000
<b>Losses</b>	6	7

Losses include a total of £6,206 debts. The recovery of this sum is considered unlikely and has been written off.

## **16. Related-party transactions**

The House of Commons: Administration Estimate is regarded as a related party. The House of Commons Commission provide resources without charge 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. Members of Parliament 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.

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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## **17. 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 Members of the House of Commons.

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**House of Commons:  
Members Estimate  
Members Estimate Audit Committee  
Annual Report 2011-12**

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**MEMBERS ESTIMATE AUDIT COMMITTEE ANNUAL REPORT 2011-12****Introduction**

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This is the eighth 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.

This report outlines the MEAC's conclusions in relation to the Members Estimate for the financial year 2011-12. 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.

Details of the MEAC's terms of reference, membership and activity during the year are provided in the Appendix to this report.

**Conclusion for the financial year 2011-12**

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

Since IPSA took over responsibility for Members' allowances in May 2010, the Members' Estimate has become significantly smaller and the scope of our work in considering the effectiveness of the system of internal control has reduced accordingly. We refer readers to the Annual Report of the Administration Estimate Audit Committee for our conclusions on the overall control environment within which the Members Estimate operates.

Last year we recommended that management review the wording of the rules governing the payment of Short Money and Representative Money to avoid potential uncertainty in periods immediately after a general election. We welcome the fact that a new policy statement has now been agreed covering all aspects of the purpose of and eligibility for Short Money, including the arrangements during a general election.

*(ii) The integrity of the Annual Accounts*

We have reviewed the Annual Accounts. We note that all sanctions imposed during 2011-12 by the House and/or Parliamentary Commissioner for Standards have been recovered. We consider the Accounts acceptable for signature by the Accounting Officer. Last year we recommended that the clarity of the narrative on pensions reporting be improved in future accounts and we are pleased to note that this has now been done. We are satisfied with the Annual Governance Statement.

IPSA took over responsibility for oversight of Member and certain Office Holder pensions on 24 October 2011. However, funding of the Exchequer contribution towards current service costs and accounting for the historic liabilities remain with the Members Estimate. As 75% of the Members Estimate covers PCPF related expenditure, management made an approach to the Members Estimate Committee and the PCPF Trustees during the year about the possibility of transferring the Members Estimate responsibilities to other Estimates and relevant accounts. We note that no immediate changes are planned for 2012-13, since neither the Members Estimate Committee nor the PCPF trustees had the appetite for a transfer. However, we recommend that it would be worthwhile to move to a situation where both the assets and the liabilities of the PCPF are covered in the same Estimate so that management accountability for both the PCPF's assets and its liabilities can be unified under a single body. We will continue to monitor closely any developments on the future of the Members Estimate.

We note that the Members Estimate Committee does not currently approve the Estimate. This may be a gap in accountability and we recommend that management consider this further.

*(iii) The work of the internal audit service*

No specific internal audit reports were carried out on the Members Estimate for the reason set out in the Appendix and we note that the Director of Internal Audit has not therefore provided a formal opinion on that Estimate. We are satisfied with that in the circumstances.

*(iv) The external audit by the external auditor*

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.

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

No other matters were referred to the Committee by the Accounting Officer or the Commission in 2011-12.

## APPENDIX

**Terms of reference**

The Committee has the following terms of reference, which are approved by the Members Estimate Committee (the last major changes were agreed in 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 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 Accounts

The Committee is responsible for reviewing the Annual 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 Annual Governance Statement;
- 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**

The Committee is chaired by an external member, Alex Jablonowski, who is also an external member of the House of Commons Management Board. Mark Clarke and Stephen Brooker are the other two external members of the Committee.

The current MP members of the Committee are: Ms Angela Eagle MP, Rt Hon Sir Alan Haselhurst MP, and John Thurso MP. Ms Angela Eagle MP replaced Rt Hon Hilary Benn MP, who served on the Committee until October 2011.

The membership of the Administration Estimate Audit Committee also reflects these changes.

The Clerk of the House, the Director of Finance 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.

The Committee's Secretary is the Private Secretary to the Clerk of the House. The Committee also has a Committee Assistant.

## Meetings

The Committee met six times in the financial year 2011/12: on 27 April 2011, 6 and 13 July 2011, 15 September 2011, 26 October 2011 and 11 January 2012. Attendance is shown in the table below.

Member	Total number of meetings attended
Alex Jablonowski (Chair)	6/6
Rt Hon Hilary Benn MP	2/4
Ms Angela Eagle MP	2/2
Rt Hon Sir Alan Haselhurst MP	5/6
John Thurso MP	5/6
Stephen Brooker	6/6
Mark Clarke	6/6

In addition it held an informal meeting to review its effectiveness on 9 November 2011.

The external members of the Committee held an informal meeting with the House's finance team and the NAO to discuss the draft House of Commons Members Estimate accounts on 1 July 2011 and 21 June 2012. They also held individual informal meetings with the Director of Internal Audit, Finance Director, and the NAO's Client Director (Parliament) on 15 September 2011 and on 4 May 2012.

The Committee had two meetings in the current financial year before this report was agreed, on 13 June and 4 July 2012.

## External Audit

### *2010/11 Accounts*

The Independent Parliamentary Standards Authority (IPSA) took over administration of Members' salaries and allowances following the General Election on 6 May 2010. As a result the Members Estimate became much smaller, covering only: expenditure on pension contributions to the Parliamentary Contributory Pension Fund (PCPF); IT equipment provided to assist Members in their duties; financial assistance to the Opposition parties to support them in the discharge of their parliamentary or representative functions (Short Money and Representative Money), an Exchequer contribution to the Members' Fund; the costs of insurance and training; and other associated costs and non-cash items. However, the 2010-11 accounts still included 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.

The Comptroller and Auditor General concluded that the 2010-11 accounts should not be qualified for two of the three issues that gave rise to qualification of the 2009-10 accounts. However, on one of the issues (payments where evidence was held by the police and therefore unavailable for audit purposes) the NAO's view was that it required names to satisfy itself with regard to evidence under investigation by the police. The then Accounting Officer decided not to release this information, a decision which we supported. As a result the Comptroller and Auditor General qualified his regularity opinion on the basis that he was unable to conclude on the level of irregular expenditure in those financial statements.

The external members of the Committee met with the NAO and Finance staff on 1 July 2011 to discuss the draft accounts. Following this the accounts were discussed by the full Committee on 6 July 2011 and then again on 15 September 2011 prior to being signed off by the then Accounting Officer.

#### *2011/12 Accounts*

In January 2012 the Committee discussed the NAO's planned approach to auditing the House of Commons Members Annual Accounts 2011-12. The Committee noted that it was very unlikely that transactions would be reported in the 2011-12 accounts with regard to prior year expenses and that therefore the NAO did not expect there to be an impact on the C&AG's regularity opinion for 2011-12 as a result of those investigations. The NAO raised only one significant risk: risks arising from the Clear Line of Sight project. It also identified two risk factors – Short Money assurances and the assumptions underlying the PCPF liability.

The Committee also considered an update paper from the Director of Finance about options for transferring the funding of the Exchequer contribution towards current service costs and accounting for the historic liabilities out of the Members Estimate.

## **Internal Audit**

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 2011-12.

Given the size and scope of the Members Estimate for 2011-12, the Internal Audit Plan did not contain any specific audit work directly related to expenditure under the Members Estimate, although many reports did have findings that are related to management systems that cover both Estimates. The Director of Finance and Director of Internal Audit review the scope of the Members Estimate and proposed coverage by the NAO, and determined that there were no significant areas of risk or operation that required specific internal audit coverage.

## **Further information about the Committee**

The Committee publishes annual reports and certain papers (agendas, minutes and actions arising) on its page on the parliamentary website  
<http://www.parliament.uk/business/committees/committees-a-z/other-committees/members-estimate-audit/role/> .