

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

**Annual Report,
Resource Accounts &
Audit Committee Annual Report**

2008-09

(for the year ended 31 March 2009)

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House of Commons: Members Estimate

Annual Report

2008-09

House of Commons: Members Estimate 2008-09 Annual Report

Introduction

1. This report sets out the main developments on the House of Commons: Members Estimate during 2008-09 and draws attention to developments planned for 2009-10.

Background

2. The activities of the House of Commons are funded by two Estimates, the House of Commons: Administration Estimate and the House of Commons: Members Estimate.

3. The Administration Estimate focuses on the administrative costs of running the House of Commons as an institution, covering the staff costs of the House Service, the maintenance costs of the Estate, the running costs of the chamber and associated activities, and travel costs of Members and officers undertaking parliamentary business such as select committee work. This Estimate is entirely under the control of the House itself: the Estimate is approved by the House of Commons Commission and laid before the House by the Speaker.

4. In contrast, the focus of the Members Estimate is mainly on Members of Parliament as individual elected representatives. It provides for their remuneration, parliamentary allowances and IT equipment in support of them carrying out their work effectively. In governance terms the Members Estimate is unique in that it is laid by a HM Treasury Minister as part of the Main Government Supply, but the accountability remains within the House of Commons. The Accounting Officer, advised by the Members Estimate Audit Committee (MEAC), is accountable to the House.

Members' allowances

5. A number of developments in Members' allowances took place as a result of the decision of the House on 24 January 2008 to instigate a review of Members' allowances in the light of the changing public expectations about transparency and accountability of the arrangements in place for supporting MPs. The Members Estimate Committee (MEC)¹, to whom the House referred decisions on allowances and for advice on the complex inter-related issues, considered among other issues a proposal for funding constituency offices centrally with a corresponding reduction in the Incidental Expenses Provision.

6. An interim report by the MEC (HC 415) put in place arrangements from 1 April 2008 that required receipts to be submitted for all claims of £25 or more. The main MEC report was published in June 2008 (HC 578-I and II) and further recommended that:

- A new system of "practice assurance" should be introduced involving regular financial health checks on the records kept in Members' offices, accompanied by an extension in the scope of the audit undertaken to align it with other public bodies;
- The receipt threshold should be reduced from £25 to zero from the start of 2009-10;
- The Green Book, which sets out the rules on allowances for Members, should be revised and re-issued for 2009-10;
- The requirement for Members to deposit staff contracts and job descriptions with the Department of Resources should be made mandatory and for the requirement to be rigorously enforced;

¹ At 31 March 2008 the Members Estimate Committee comprised the Speaker (Rt Hon Michael J Martin MP) in the chair, Rt Hon Harriet Harman QC MP, Rt Hon Theresa May MP, Sir Stuart Bell MP, Nick Harvey MP, and Rt Hon David Maclean MP. Alan Duncan MP replaced Rt Hon Theresa May MP on 26 January 2009.

- The Additional Costs Allowance (ACA) should be adapted into an overnight expenses allowance which would exclude re-imburement for furniture, household goods and capital improvements. The allowance would operate on the basis of itemised reimbursement and a flat rate of £30 for daily subsistence;
- New Members elected to the next Parliament who represent constituencies in outer London would be eligible to claim half of any overnight expenses allowances, and a new London costs allowance would be introduced to replace the London Supplement;
- The Review Body on Senior Salaries (SSRB) proposal that constituency office lease or rental should be met in full by the House should be accepted, but there should be a limit on the size and standard of accommodation;
- The value of the Communications Allowance would be frozen at £10,400 until April 2012 with a tightening of the rules around its use;
- There would be changes to the method of calculating the Resettlement Grant paid to Members leaving the House.

7. The MEC report was debated by the House on 3 July 2008. Those changes approved included replacing the London Supplement with a new London Costs Allowance of £7,500 for Members who do not or are not eligible to claim Additional Costs Allowances; providing a new basis for the Resettlement Grant to come into effect at the General Election after next, and requiring all Members who wish to claim reimbursement under the Communications Allowance for publications costing over £1,000 to submit them to the Department of Resources for clearance in advance.

8. The House subsequently debated a motion on 16 July 2008. It resolved that there should be a re-write of the Green Book by the Advisory Panel on Members' Allowances¹. In addition, the external financial audit by the National Audit Office would cover all the allowances, the rules and guidance on what was and what was not acceptable under the rules, the management controls and processes used by the Department of Resources to ensure compliance with the rules, and the checks and testing of the controls to ensure that they were adequate and effective.

9. A draft of the revised Green Book was published on 12 January 2009 in the form of a report from the Members Estimate Committee (HC 142, 2008-09) which also incorporated a report from the Members Estimate Audit Committee² on audit and assurance. The Audit Committee's report recommended that:

- The scope of the current external audit should be extended so that it was 'full scope'³;
- Internal Audit should extend its audit of Member's allowances to cover all the allowances as well as examining the governance and overall control environment;
- The Department of Resources should set up a senior Operational Assurance Unit to give advice to Members and ensure compliance with the rules and maintenance of standards;

¹ The Advisory Panel on Members' Allowances was set up (as the Speaker's Advisory Panel) in 2001. The Panel was replaced on 22 January 2009 by the Committee on Members' Allowances. As at 31 March 2009 the membership of the Committee was as follows: Rt Hon Don Touhig MP, in the chair, Alistair Carmichael MP, Liz Blackman MP, Rt Hon Michael Jack MP, Rt Hon Thomas McAvoy MP, Dan Norris MP, Nigel Dodds OBE MP, and John Randall MP.

² As at 31 March 2009 the Members' Estimate Audit Committee comprised Alan Duncan MP, in the chair, Nick Harvey MP, Clive Betts MP, Sir Thomas Legg QC KCB, David Taylor FCA and Alex Jablonowski.

³ A 'full scope' audit would involve examining the regularity of expenditure for which Members claim re-imburement. The framework for 2008-09 was based on the principle that Members are primarily responsible for identifying, claiming and certifying their own expenditure on allowances. Consequently the audit of the 2008-09 Resource Accounts was restricted in its scope.

- Serious instances of non-compliance should be reported to the MEAC and the Standards and Privileges Committee if warranted by the circumstances.

The MEAC's report was accepted by the House on 22 January 2009.

10. Also on the 22 January, the House debated and agreed the new Green Book. The Green Book, published on 18 March 2009, is now a principles-based guide to the allowances and highlights criteria against which Members must assess their claims before making them. These principles are as follows:

- Claims should be above reproach and must reflect actual usage of the resources being claimed;
- Claims must only be made for expenditure that it was necessary for a Member to incur to ensure that he or she could properly perform his or her parliamentary duties;
- Allowances are reimbursed only for the purpose of a Member carrying out his or her parliamentary duties. Claims cannot relate to party political activity of any sort, nor must any claim provide a benefit to a party organisation;
- It is not permissible for a Member to claim under any parliamentary allowance for anything that the Member is claiming from any other source;
- Members must ensure that claims do not give rise to, or give the appearance of giving rise to, an improper personal financial benefit to themselves or anyone else;
- Members are committed to openness about what expenditure has been incurred and for what purposes;
- Individual Members take personal responsibility for all expenses incurred, for making claims and for keeping records, even if the administration of claims is delegated by them to others;
- The requirement of ensuring value for money is central in claiming for accommodation, goods or services – Members should avoid purchases which could be seen as extravagant or luxurious;
- Claims must be supported by documentary evidence, except where the House has agreed that such evidence is not necessary.

11. The Green Book further amended the nomenclature of the existing allowances from 2009-10 to reflect these changes:

Former Title	Equivalent Title for 2009-10
Staffing Allowance (SA)	Staffing Expenditure (SE)
Incidental Expenses Provision (IEP)	Administrative and Office Expenditure (AOE)
Additional Costs Allowance (ACA)	Personal Additional Accommodation Expenditure (PAAE)
Communications Allowance (CA)	Communications Expenditure (CE)

12. A consultation paper on the 'Audit and Assurance of MPs Allowances' (Cmd 7460) was published by the Leader of the House of Commons (the Rt Hon Harriet Harman QC MP) on 5 August 2008. This outlined proposals for further action to improve the financial control and audit of the system of allowances claimed by Members.

Future of the allowances

13. On 30 March 2009 the Prime Minister wrote to Sir Christopher Kelly, Chair of the Committee on Standards in Public Life (CSPL), to acknowledge their decision to undertake a review, requesting it be completed as early as possible. The CSPL published an issues and questions paper on 23 April

2009 and has asked for submissions of evidence by 5 June 2009. The intention is to hold public meetings in June and July before reporting in the autumn 2009.

14. In a Statement on 19 May 2009 the Speaker of the House of Commons announced interim measures to take immediate effect. These were not intended to pre-empt any more substantial changes that might arise when the Kelly Committee reports. These included restrictions on the claims allowed on second homes, Members who are married or living together as couples and mortgage reimbursements. It further confirmed the enforcement of the requirement to provide copies of staff contracts and the registration of any relatives employed by Members. The Speaker also announced a review of all ACA claims made by Members (except those who have since died) between 2004-05 and 2007-08. A report on the findings will go to the MEC in the autumn 2009.

Members' pay

15. Following the debate on 3 July 2008, responsibility for determining the annual percentage increase in Members' pay was referred to the Review Body on Senior Salaries (SSRB). Their first recommendation was published on 6 October 2008 and gave rise to an increase in Members' pay from £61,820 to £63,291 for 2008-09. Their second recommendation was published on 28 March 2009 and further increased MPs pay by 2.33% to £64,766 for 2009-10.

Legislative developments

16. On 26 February 2008 the Information Tribunal confirmed the requirement to disclose details of individual claims by 14 Members under the Freedom of Information Act 2000. Although this decision was challenged in the High Court by the MEC on a point of law, the Tribunal's decision was upheld in May 2008. The claims for the 14 Members concerned were released shortly afterwards, and a decision was taken to release comparable information for all Members in due course. Work on scanning around 700,000 pieces of paper was then undertaken with the redaction of information that could threaten the security of Members, or prejudice the effective conduct of public affairs, as resolved by the House during the debate on Members' expenses on 3 July 2008. This led to the publication of claims received during 2004-05 to 2007-08 on 18 June 2009, with further publication of claims for subsequent years to follow.

17. The Prime Minister's Statement on 10 June 2009 set out the Government's proposal to invite the House to agree further democratic reform including legislation – before the House rose for the summer – on the conduct of MPs.

18. A Parliamentary Standards Bill was introduced in the House of Commons on 23 June 2009. The Bill makes provision to establish a body corporate known as the Independent Parliamentary Standards Authority and an officer known as the Commissioner for Parliamentary Investigations; and provisions relating to salaries and allowances for Members of the House of Commons and to their financial interests and conduct; and for connected purposes.

Trends and other developments

(i) Members' claims

19. During the year the Department of Resources processed over 68,000 claims from Members for Additional Costs Allowance (ACA), Incidental Expenses Provision (IEP) and Communications Allowance (CA). This represents an increase in the number of claims over the previous year of 6 per cent. The increase in claims is largely accounted for by the introduction of the Communications Allowance.

**House of Commons:
Members Estimate
Resource Accounts**

2008-09

Foreword to the Accounts

For the year ended 31 March 2009

Scope of the accounts

This account reports to support provided to Members of Parliament in discharging their parliamentary duties and responsibilities.

Purpose

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

Objectives

The objectives of the Members Estimate are as follows:

- a. To put elected Members of Parliament in a position to conduct their work on behalf of their constituents by meeting:
 - salary and related costs of Members and their staff;
 - certain expenses incurred in connection with their duties;
 - appropriate travel costs of Members, their staff, and their families;
 - centrally provided services including insurance, computers and other IT equipment, help for Members with disabilities, litigation, security, and training for staff.
- b. To put Opposition parties in a position to conduct their parliamentary business effectively.
- c. To provide an annual grant to the Members' Fund to assist former Members and their dependants.

Activities

All monies paid to Members of Parliament through the Estimate are governed by Resolutions of the House. These Resolutions are debated and agreed on the floor of the House of Commons. Members are individually accountable for their decisions and actions in approving and claiming their pay and allowances. The Estimate provides for the following services:

- *Members' Parliamentary salaries* are paid to all Members who have taken the oath (Ministerial salaries are paid by the relevant Department of State);
- *Staffing Expenditure (previously Staffing Allowance)* pays for the equivalent of up to three and a half full-time members of staff;
- *Administrative and Office Expenditure (AOE) (previously Incidental Expenses Provision (IEP))* covers a range of office and other expenditure, to the extent that it is not met by other aspects of provision;

- *Personal Additional Accommodation Expenditure (PAAE) (previously Additional Costs Allowance (ACA))* reimburses Members for expenses recently incurred when staying overnight away from their main home whilst performing their duties. Members with inner London constituencies are not entitled to ACA, but are paid a London supplement;
- *Communications Expenditure (previously Communications Allowance (CA))* allows Members to proactively communicate with their constituents, and is used typically to produce newsletters, annual reports and pay for Parliamentary websites;
- *Travel expenses* reimburse Members and their staff for expenditure incurred when travelling in the pursuit of their official duties. There is also some provision for travel by family members. Although there are no restrictions on the number of journeys Members may undertake, families and staff are restricted according to the rules laid down in Resolutions of the House;
- *Staff pensions* are provided up to a maximum of 10% of an employee's earnings over the period of employment, but subject to an overriding limit of 10% of the Staffing Allowance for each Member;
- A *Resettlement Grant* is payable to any Member who leaves the House of Commons at a General Election. The amount of the grant varies according to salary, age and length of service at the time of the dissolution of the House;
- *Winding-up Expenditure (previously winding-up allowance)* is payable to meet the costs of any official work undertaken on behalf of a deceased, defeated or retiring Member after the date on which they cease to be a Member of Parliament. All other allowances cease on this date;
- *Financial Assistance to Opposition Parties ("Short Money" and "Representative Money")* is available to help Opposition parties to carry out their parliamentary business;
- The *General Services Budget* provides IT equipment for use by Members, communications, training, assistance for Members with disabilities, various insurances and other incidental expenditure.

During the year each Member was able to draw on a Staffing Allowance of £100,205, an Incidental Expenses Provision of £22,193, an Additional Costs Allowance of £24,006 and a Communications Allowance of £10,400.

Management Commentary

The net resource outturn of £169.0 million against an Estimate of £176.8 million gave rise to a resource underspend of £7.8 million (4.0%) for the year.

Variances between the Estimate and outturn arose because spending is at the discretion of Members of Parliament and does not always follow historic trends. These included underspends against the Staffing Allowance (£0.8 million: 1.3%), Incidental Expenses Provision (£3.0 million: 20.9%), and the Additional Costs Allowance (£3.8 million: 26.4%). A particular difficulty in 2008-09 was estimating the take up of the Communications Allowance (which was introduced in 2007-08), which in the event was £1.3 million (20.3%) less than planned in the Estimate. The increase in central service provision expenditure represents the additional cost incurred in publishing details of Members' Allowances claims for 2004-05 to 2007-08.

A corresponding net cash requirement of £166.4 million against an Estimate of £175.3 million resulted in a cash underspend of £8.9 million (5.0%). Again, this underspend represents lower than planned levels of allowance claims, as well as those claims submitted after the year end which were accrued prior to being paid in 2009-10.

The Members' Fund

The Members' Fund provides for ex-Members and their dependants who find themselves in difficult circumstances. It also pays certain "as of right" benefits. It is funded jointly by a grant from the Estimate and contributions from Members. It is administered by trustees appointed by the House of Commons. The accounts of the Members' Fund are published separately; copies can be obtained from the Department of Resources.

Governance

All monies paid to Members of Parliament through the Estimate are governed by Resolutions of the House. Arrangements for expenses and allowances paid under the Estimate are overseen by the Members Estimate Committee 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 Estimate for House of Commons: Members;
- 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.

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 Members Estimate Committee on 1 April 2009 (HC281).

Public interest

There were 646 elected members of the House as at 31 March 2009. The House is self-governing and constitutionally separate from the Government. The House seeks to maintain good practice in all employment and business matters. In particular it is committed to the principles of diversity and equality of opportunity, and to the prompt payment of bills.

The House of Commons has a target of paying all Members' claims within ten working days of receipt. Third party payments to statutory bodies and external suppliers are paid by the statutory due date, or wherever possible within 30 days of invoice date whichever is sooner. In line with other public sector organisations the House of Commons has temporarily adopted prompt payment of small and medium sized enterprises within 10 days. Payments to public sector organisations do not fall under this initiative.

Auditors

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

As far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware. The Accounting Officer has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Going concern

The Balance Sheet at 31 March 2009 shows negative Taxpayers' Equity of £153.5 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the House of Commons Members net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from income, are surrendered to the Fund.

The future financing of the liabilities recorded in the Balance Sheet will therefore have to be met by future grants of Supply approved annually by Parliament. Approval for those amounts required in 2009-10 has already been given and there is no reason to believe that future approvals will not be forthcoming. It is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Malcolm Jack
Accounting Officer

16 July 2009

Statement of Accounting Officer's Responsibilities

Although the Estimate for the House of Commons: Members is laid by the HM Treasury 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, recognised gains and losses and cash flows for the financial year. Members are responsible for the regularity and propriety of claims submitted.

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

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

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

Statement on the System of Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of the House of Commons, whilst safeguarding the public funds and the assets of the House for which I am personally responsible. These responsibilities are broadly in line with those set out in *Managing Public Money* published by HM Treasury.

Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate risk. It can therefore only provide reasonable and not absolute assurance of effectiveness.

A system of internal control has been in place in the House of Commons for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts.

Control framework and management of risk

The framework of rules governing the administration of Members' allowances is drawn from Resolutions of the House of Commons. The framework is based on the principle that Members are primarily responsible for identifying, claiming and certifying their own expenditure. The Department of Resources is responsible for ensuring that the stated purpose of Members' claims falls within the agreed framework. The controls on expenditure therefore ensure that payments are correctly accounted for and paid to the correct recipient; but it is primarily the responsibility of Members to ensure the regularity and propriety of expenditure for which they claim reimbursement.

The Green Book in place for 2008-09, supported by the Resource Framework and other guidance, set out the procedures and controls including where responsibilities rest. In support of these instructions there is a framework of regular management information and procedures which include:

- the planning and agreement of an annual budget;
- internal controls, including segregation of duties, governing transaction processing;
- resource accounting policies and procedures; and
- the preparation of regular financial reports which indicate actual expenditure against the forecasts.

The Members Estimate Committee (MEC) takes responsibility for oversight of the allowance system. The Committee, whose Members are the same as those of the House of Commons Commission, has the authority to agree minor changes to the Resolutions but it may not approve increases in the rates payable or new forms of charge. The MEC appoints the Members Estimate Audit Committee (MEAC) to advise me in my role as Accounting Officer. At the 1 April 2008 its membership comprised of two Members of Parliament, who were members of the House of Commons Commission, and two external non-executive members who are independent. An additional Member of Parliament and a further external member were appointed during the year.

The MEC Review of Allowances published on 25 June 2008 and subsequent events have given rise to a number of changes to the rules governing Members' allowances and the procedures for handling claims. These include the publication of a revised Green Book on 18 March 2009 which has adopted a "principles based" set of criteria against which Members are to assess their claims before submitting them for approval. These criteria re-emphasise the need to ensure that allowances are reimbursed only for the purpose of a Member carrying out his or her parliamentary duties. In addition, it is

essential that claims should not give rise to, or give the appearance of giving rise to, an improper personal financial benefit to a Member or anyone else.

A report from the MEAC, which was accepted by the House as part of the MEC report (HC 142, 2008-09) on 22 January 2009, recommended that:

- The scope of the current external audit should be extended so that it was ‘full scope’¹;
- Internal Audit should extend its audit of Member’s allowances to cover all the allowances as well as examining the governance and overall control environment;
- The Department of Resources should set up a senior Operational Assurance Unit to give advice to Members and ensure compliance with the rules and maintenance of standards;
- Serious instances of non-compliance should be reported to the MEAC and the Standards and Privileges Committee if warranted by the circumstances.

Following disclosures in the media and the resultant public disquiet, a Parliamentary Standards Bill was introduced in the House of Commons on the 23 June 2009. The Bill makes provision to establish a body corporate known as the Independent Parliamentary Standards Authority and an officer known as the Commissioner for Parliamentary Investigations; provision relating to salaries and allowances for Members of the House of Commons and to their financial interests and conduct; and for connected purposes.

Financial Assistance to Opposition Parties is paid in accordance with Resolutions of the House. These Resolutions require each recipient party to certify, through an external auditor, that expenditure has been incurred exclusively in relation to the party’s parliamentary or representative business.

The House of Commons has an Internal Audit (IA) function, as part of the Office of the Chief Executive, which operates broadly to standards defined in the Government Internal Audit Standards. The work of the IA function is informed by the analysis of risk to which the House of Commons is exposed, and annual internal audit plans are based on this analysis. At least annually, the Director of IA provides me with an independent report on the related activity within the House of Commons service. The report includes his opinion on the adequacy and effectiveness of the House of Commons system of internal control.

Review of effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control.

My review of the effectiveness of the system of internal control on the processing of Member claims is informed by the work of IA and the administrative staff of the House of Commons, who have responsibility for the development and maintenance of the control framework, and comments made by the external auditors in their management letter and other reports. This has been supported by the House’s decision on 16 July 2008 for the National Audit Office to undertake an external review covering all the allowances in the Green Book. Their report, produced in October 2008, was based on a sample of claims submitted between April and July 2008. It found that, while the House Administration had queried some claims where supporting evidence was unclear, there was still scope to improve both the quality and quantity of information supplied by Members in support of their claims. It also highlighted scope to improve efficiency and effectiveness by reviewing the number of different claim forms used, and migrating from an allowance-by-allowance validation process to one which covered all claims by an individual Member.

¹ A ‘full scope’ audit would involve examining the regularity of expenditure for which Members claim re-imburement. The framework for 2008-09 was based on the principle that Members are primarily responsible for identifying, claiming and certifying their own expenditure on allowances. Consequently the audit of the 2008-09 Resource Accounts was restricted in its scope.

Public release of Members' claims receipts for 2004-05 to 2007-08 highlighted a number of discrepancies that are currently being investigated. It has further led the Speaker to announce a review of all ACA claims made by Members, except those who have since died, during 2004-05 to 2007-08. This review, led by Sir Thomas Legg KCB QC, will report to the MEC in the autumn of 2009.

An investigation is currently under way to establish how details of Members' claims were disclosed prior to the official publication on 18 June 2009. Although a review of the risks associated with the publication programme had been undertaken and mitigations put in place, the review will attempt to identify the source of the disclosure as well as the effectiveness of the controls adopted.

The Director General of Resources provides me with an annual letter of assurance on the management of procedures and controls, as well as risk, in the Department of Resources. The Members Estimate Audit Committee takes a close interest in the work of internal audit, with particular emphasis on promoting economy, efficiency and effectiveness, risk assessment and internal control. The Director General of Resources and I regularly attend the meetings of the Audit Committee.

As far as controls over expenditure are concerned and in light of the work carried out by the IA, I am satisfied as to the general adequacy of the internal control system within the ambit of the House of Commons: Members Estimate. However, concerns have been expressed about governance, and these will be addressed through the proposed new arrangements being considered in connection with the establishment of an Independent Parliamentary Standards Authority. In the meantime, existing controls will be re-visited if emerging findings from the reviews identify shortfalls in the current procedures.

Malcolm Jack
Accounting Officer

16 July 2009

Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the House of Commons: Members for the year ended 31 March 2009. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, and the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the House of Commons Financial Reporting Manual and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the House of Commons Financial Reporting Manual. I report to you whether, in my opinion, information given in the Foreword is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the House has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the House of Commons' application of best practice guidance on corporate governance including, amongst other sources, the Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of the House's corporate governance procedures or its risk and control procedures.

As set out in the Statement on Internal Control, the framework of rules governing the administration of Members' allowances is drawn from Resolutions of the House of Commons. The framework is based on the principle that Members are primarily responsible for identifying, claiming and certifying their own expenditure on allowances. The House of Commons Service (the Department of Resources) is responsible for ensuring that the stated purpose of Members' claims falls within the agreed framework. The controls on allowance expenditure, therefore, ensure that payments are correctly accounted for and paid to the correct recipient; but it is primarily the responsibility of Members to ensure the regularity and propriety of expenditure for which they claim reimbursement. My audit of these allowances considers whether payments from the House of Commons: Members Estimate are supported by Members' claims, whether the purpose of the expenditure stated on the claims meets that of the relevant allowance, and whether the House of Commons Service (the Department of Resources) have properly accounted for these claims.

As further set out in the Statement on Internal Control, financial assistance to opposition parties is paid in accordance with Resolutions of the House of Commons. These Resolutions require each recipient party to certify, through an external auditor, that expenditure has been incurred for Parliamentary purposes. My audit of these amounts considers whether payments to recipients are in line with the Resolutions, whether the House of Commons Service has properly accounted for these amounts and received certificates from external auditors, in accordance with the Resolutions, which confirm that expenditure has been incurred for Parliamentary purposes.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Annual Report and the Audit Committee Annual Report. I consider the implications for my report if I become aware of any

apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the House's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the House of Commons Financial Reporting Manual of the state of the House's affairs as at 31 March 2009 and the net cash requirement, net resource outturn, recognised gains and losses and cashflows for the year then ended;
- the financial statements have been properly prepared in accordance with the House of Commons Financial Reporting Manual; and
- information given within the Foreword is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

Introduction

There are no statutory provisions regarding the preparation and audit of the House of Commons Members Estimate Account. My audit of the Account is undertaken by agreement with the House. As set out in the statement of respective responsibilities in my audit certificate, that agreement provides for my audit to consider whether payments are supported by Members' claims; whether the purpose of the claim meets that of the relevant allowance; and whether the House Services have properly accounted for the claims.

The scope of the audit engagement does not, however, require me to seek evidence that eligible expenditure has actually been incurred for the purpose stated in the claim. Because Members were not previously required to provide evidence of expenditure for items under £250, there would have been insufficient evidence to support an audit opinion in respect of expenditure actually incurred. In that respect the audit was limited in scope.

For 2008-09, however, the threshold for receipting claims was reduced to £25. In evidence to the Members Estimate Committee on 30 April 2008, my predecessor pointed out that the improved level of audit evidence which should result would provide an audit trail sufficient to support a full scope audit. In a memorandum of 2 June 2008, he proposed that the scope of the audit should be expanded to be consistent with the C&AG's audit of other bodies in receipt of public funds. On 22 January 2009, the House accepted a recommendation from the Members Estimate Audit Committee that the audit engagement should move to an unrestricted basis from 1 April 2009.

Pending the change in the audit engagement, from the late summer of 2008 the National Audit Office extended its testing of expenditure for 2008-09 in order to pilot the new approach, and to identify areas that would need to be strengthened to support management's needs and to withstand an unrestricted audit from the following year. I am reporting on the results of this audit work to inform the ongoing debate about control of Members' expenses, and so that the House is aware of issues that will need to be addressed both by the House Services and by Members themselves.

Findings

The main area of uncertainty in the audit of Members' expenses is not so much whether expenditure is correctly stated in the account, as whether payments made to Members conform to the rules which govern them and are, therefore, regular. There are two aspects to this uncertainty: the interpretation of the rules themselves, as determined by Resolutions of the House and set out in the "Green Book"; and the nature and adequacy of evidence required to confirm compliance with the rules. On the first aspect, some of the rules are open to interpretation, for example the wide ranging goods and services claimable following designation of an MP's second home. And, on the nature of evidence: it is easier to show that money has been spent on, say, rail travel, than that the cost (of the travel) was wholly, exclusively and necessarily incurred on parliamentary business.

In its extended audit of the regularity of expenses in the account, the National Audit Office sample-tested claims submitted between April 2008 and March 2009 for each allowance. The task was facilitated by the greater rigour and consistency being applied by the Department of Resources in interpreting the rules and determining the admissibility of expenditure, in line with the increased attention being given to these matters by the House itself. Effective administration of expenses is still difficult, however, where requirements are expressed more as guidelines than rules, thus admitting claims that may widely be seen inappropriate or inconsistent with the underlying purpose of the allowance, though arguably meeting the formal conditions for payment.

In terms of the availability of evidence, the level of fully vouched expenditure was found to have increased significantly since the introduction of the £25 threshold. There was, however, still room for improvement in both the quality and the quantity of information supplied in support of individual payments.

Examples of inadequate evidence for Additional Costs Allowance included remortgaging a second home to improve the property, where the available information did not indicate whether or not the funds had been used for that purpose; or claims for rental of accommodation paid in advance, and not demonstrably based on rental expenditure actually incurred. There were also a significant number of office rental claims without rental contracts in place. Evidence in support of Travel Allowance claims was sufficient to show that the funds had been spent on travel, but not that the travel was for parliamentary purposes.

Even allowing for the period of grace that applies in respect of newly appointed employees and reflecting the efforts from the Department of Resources to ensure compliance, claims for Members' Staffing Allowance were not always supported by contracts of employment which are needed to confirm the employment relationship and the obligation to meet the salary costs claimed. Claims for Communications Allowance were not required to be supported by examples of publications to confirm actual expenditure, or to show that they were free from political content and, therefore, we were unable to conclude as to their eligibility. Petty cash drawings were not required to be supported by records or receipts.

Less error was identified in the application of the rules to the available evidence. Sampling identified one instance where the capital element of a mortgage was met from Additional Costs Allowance though only the interest is allowable. Evidence of a duplicate payment highlighted a risk that

management's controls may not be sufficient to ensure that duplicate claims are not made through different allowances, or through different methods for the same expenditure.

Conclusion

The additional testing undertaken by the National Audit Office was focussed on ascertaining the availability of evidence to corroborate claims made by Members. It was not a full audit designed to seek additional sources of assurance where evidence was lacking, nor was it intended to determine the extent and level of error in the account. No presumption can, therefore, be made as to the prevalence of error at this stage. A full scope audit is being put in place for the current year of account, 2009-10.

Nevertheless, the work done suggests that evidence of expenditure actually incurred still needs enhancing to be confident that it will withstand audit, and to address the risk of material uncertainty regarding the application of amounts claimed to approved purposes. In some cases there was insufficient information for a judgement to be made on whether the expenditure was in accordance with the House Resolutions and the Green Book rules, and whether expenditure was appropriately recorded. In some instances, the information that was available revealed errors through misapplication of the rules, but in our sample, this was not widespread. As the scope of my engagement is still limited to a review of allowance claims rather than evidence that actual expenditure accords with the claim, I have not yet planned or performed the work necessary to estimate the likely error in the account as a whole, though I will be doing so in respect of the 2009-10 account. Nor have I limited the scope of my opinion in respect of my responsibility for the audit of the 2008-09 account.

Amyas C E Morse
Comptroller and Auditor General

17 July 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

Statement of Parliamentary Supply

Summary of Resource Outturn

For the year ended 31 March 2009

Request for Resources	Estimate			Outturn			Net Total Outturn compared with Estimate: saving/(excess) ¹	2007-08 Net Total
	Salaries & other costs	Grants	Net Total	Salaries & other costs	Grants	Net Total		
	£000	£000	£000	£000	£000	£000		
Members' salaries, Allowances and Other costs	164,567	12,233	176,800	161,721	7,234	168,955	7,845	159,310
Total resources	164,567	12,233	176,800	161,721	7,234	168,955	7,845	159,310
Non-operating cost A in A	(2)		(2)	(1)		(1)	(1)	(1)

Summary of net cash requirement 2008-09

	Note	Estimate	Outturn	Net Total Outturn compared with Estimate: saving/(excess) ¹	2007-08 Outturn
		£000	£000	£000	£000
Net cash requirement	3	175,300	166,449	8,851	159,989

Summary of income payable to the Consolidated Fund.

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

	Note	Forecast 2008-09		Outturn 2008-09	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Total income payable to the Consolidated Fund	4	-	-	119	119

¹ Explanations of variances between the Estimate and Outturn are given in the Management Commentary (Page 13).

The Notes on pages 29 to 43 form part of these Resource Accounts.

Operating Cost Statement

for the year ended 31 March 2009

	Note	2008-09		2007-08
		Salary & related costs £000	Other Costs £000	Income £000
Programme Costs				
Members' salaries, allowances and other costs				
Members' salaries	6	45,802		44,510
Members' pensions	6	12,455		12,000
Other costs	7		103,464	95,757
Grants to other bodies	7		7,234	7,043
Totals		58,257	110,698	-
Net Operating Cost				168,955
				159,310

Statement of Recognised Gains and Losses

for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
(Loss)/Gain on pension liabilities due to changes in actuarial assumptions	13	(39,300)	7,700
Total losses and gains recognised since last annual accounts		(39,300)	7,700

The Notes on pages 29 to 43 form part of these Resource Accounts.

Balance Sheet

as at 31 March 2009

		2008-09		2007-08	
	Note	£000	£000	£000	£000
Fixed assets:					
Tangible assets	8	564		1,255	
Intangible assets	9	-		-	
			564		1,255
Current assets:					
Debtors	10	344		680	
Cash at bank and in hand	11	299		256	
		643		936	
Creditors (amounts falling due within one year)	12	(12,183)		(11,400)	
Net current liabilities			(11,540)		(10,464)
Total assets less current liabilities			(10,976)		(9,209)
Provisions for liabilities and charges	13	(142,488)		(97,943)	
			(142,488)		(97,943)
			(153,464)		(107,152)
Taxpayers' equity:					
General Fund	14		(153,464)		(107,152)
			(153,464)		(107,152)

Malcolm Jack
Accounting Officer

16 July 2009

The Notes on pages 29 to 43 form part of these Resource Accounts.

Cash Flow Statement

for the year ended 31 March 2009

	Note	2008-09	2007-08
		£000	£000
Net cash outflow from operating activities	15a	(166,431)	(159,939)
Capital expenditure and financial investment	15b	(18)	(50)
Receipts due to the Consolidated Fund which are outside the scope of House activities	4	119	55
Payments of amounts due to the Consolidated Fund		(75)	(59)
Financing ¹	15c	166,448	159,990
Increase/(decrease) in cash in the period	15d	43	(3)

¹The amount of grant actually issued to support the net cash requirement equalled £166,447,500

The Notes on pages 29 to 43 form part of these Resource Accounts.

Notes to the Resource Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the House of Commons Financial Reporting Manual. Accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

In addition to the primary statements prepared under UK GAAP, another primary statement is prepared. The *Statement of Parliamentary Supply* and supporting Notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Accounting convention

These financial statements are prepared on an accruals basis under the historical cost accounting method.

1.2 Tangible fixed assets

IT equipment will not be re-valued if the revaluation adjustments do not have a material impact upon the figures. In 2008-09 IT equipment purchases were valued at historic cost. IT equipment such as personal computers, monitors and printers are capitalised. Smaller items such as mice, keyboards, etc are expensed.

1.3 Depreciation

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 IT Equipment is deemed to be 4 years.

1.4 Intangible fixed assets

Intangible fixed assets comprise extended warranty covers and software licences purchased through the Members' Central IT provision (CIT). These assets are amortised over the life of the warranty or the life of the hardware on which it is installed.

1.5 Investments

There are no short term current investments.

1.6 Stocks and work in progress

No stocks are held and there is no work in progress.

1.7 Research and development

There is no research and development activity.

1.8 Operating income

No operating income is anticipated or collected under the Estimate. However, if a Member was found to have been overpaid on an allowance then the debt would be recovered either directly by cash payment, by delaying costs to be claimed until a later allowance period, or through reducing the subsequent year's allowance. Any cash receipts over and above those identified as debts at the year end are surrendered to the Consolidated Fund. Receipts of insurance payments for lost or damaged IT equipment are surrendered to the Consolidated Fund.

1.9 Capital charge

A charge, reflecting the cost of capital utilised, is calculated at the HM Treasury standard rate of 3.5% on all assets (except cash balances with the Paymaster General) less liabilities. There is negative capital charge to the accounts in 2008-09 because the net liabilities exceed the value of the assets.

1.10 Foreign exchange

Those transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction. There were no foreign exchange transactions during 2008-09.

1.11 Members Pensions

Members of Parliament receive a pension from the Parliamentary Contributory Pension Fund (PCPF). The scheme is a defined benefit scheme based on final salary and is funded by contributions from Members and the Exchequer. As at 1 April 2002 this was based on an accrual rate of 1/50th for every year of service subject to a maximum of 33 1/3 years. The Parliamentary Pension (Amendment) Act 2002 gave Members the option, on an individual basis, to increase the accrual rate from 15 July 2002 to 1/40th of final pensionable pay for each year of service if they increased their personal contribution from 6% to 9% of pay.

The Government Actuary determines the amount the Exchequer pays after each triennial valuation of the fund. The rate of contribution in 2008-09 was 26.8% of salary per member of the PCPF.

The maximum pension available at 65 is 2/3 of final salary. There is an option to commute part of the pension for a tax-free lump sum dependent on age and length of service. The introduction of a 1/40th scheme resulted in a number of longer serving Members reaching their maximum period of service and therefore ceasing to contribute.

The supplementary pension contributions associated with the Ministerial element of a Member's salary are funded by the Estimate and are included in the pensions figure in Note 6. The Ministerial salary supplement itself is funded by the relevant Government Department direct.

The Managing Trustees are current Members of the House of Commons plus one retired former Member. The scheme's investments are managed by the Bank of New York. The scheme is administered by rpm. The cost of administering the scheme is included as an administration cost within the House of Commons: Administration accounts.

The accounts of the PCPF are published separately. Further information about the PCPF or a copy of the Annual Report can be obtained from The Parliamentary Contributory Pension Fund Secretariat, Pensions Unit, Department of Resources, House of Commons, London, SW1A 0AA.

1.12 Early departure costs

Under the PCPF scheme rules, normal retiring age is 65, but a Member with at least 20 years' service can retire at 60 with an immediate pension. It is also possible for Members over the age of 50 to retire with an immediate pension subject to an actuarial reduction dependent on age and length of service. In addition, if the Trustees of the PCPF are satisfied that a Member's ill health permanently prevents them from carrying out their duties, they can retire early with an immediate pension. All early retirement costs are met from the Fund and are not identified separately.

1.13 Staff pension provision

Since November 2003, Members' employees have automatically joined the Portcullis Pension Plan, although they can opt out if they wish. When the Plan was first set up, a small group of employees, who met certain criteria, were allowed to stay with their existing providers.

All employees within the Plan benefit from a contribution paid by the House of 10% of their earnings. They can decide how this is split between the two providers, Norwich Union and AXA Sun Life, and how the funds are invested. Employees can also make voluntary contributions if they wish. In addition, all the members of the Plan benefit from death in service cover of twice their salary.

1.14 Grants to other bodies

Financial assistance is provided to Opposition parties and the Members' Fund.

1.15 Leases

No operating or finance leases are held.

1.16 Private Finance Initiative (PFI) transactions

There were no PFI transactions during the year.

1.17 VAT

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.

1.18 Programme expenditure

The Operating Cost Statement shows details of programme costs, which include Members' salaries, allowances and pension costs. Details of how these may be claimed are outlined in the Green Book, issued by the Department of Resources at the House of Commons.

The allowance expenditure disclosed in these resource accounts relates to Members' claims arising from the accounting period covered by the accounts. It includes claims received after the year-end to pay for activity arising within the accounting period. The Green book allows claims against each year's allowance budget to be submitted up to two months after the financial year; however, in exceptional circumstances claims received more than two months after the accounting year-end may be paid.

Members who have specific spending plans are able to transfer up to 10% of their Staffing Allowance to either Incidental Expenses Provision or the Communications Allowance. In certain circumstances they can also ask to carry forward up to 10% of their Incidental Expenses Provision and Staffing Allowance. Apart from exceptional circumstances, approved by the Speaker, any request must be submitted within two months of the end of the financial year. Movements between years are managed within the overall resources and net cash requirement for those years.

The year-end accrual balance represents claims from Members received during the two months after the year-end, which relate to the accounting period covered by the resource accounts.

Prepayments are disclosed for all spend with the exception of Members allowances, but including season tickets where the services will be delivered in the next accounting period.

1.19 Going concern

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

1.20 Costs of administering Members' salaries and allowances

The cost of administering Members' allowances and salaries is included as an administration cost within the House of Commons: Administration accounts.

1.21 Third party assets

There are no third party assets held.

2. Reconciliation of Estimates, accounts and budgets

Reconciliation of accounts to capital budget

	Note	2008-09		2007-08 Outturn	
		Final provision	Outturn		Outturn compared with final provision
		£000	£000		£000
Additions to assets	8, 9	102	19	83	51
(Disposals) at net book value	8, 9	-	-	-	
Capital Budget		102	19	83	51

3. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving/(excess)
		£000	£000	£000
		Resource Outturn	176,800	168,955
Capital				
Acquisition of fixed assets	8, 9	102	19	83
Non operating A in A				
Proceeds of fixed asset disposals	5	(2)	(1)	(1)
Accruals adjustments				
Non-cash items	7	(1,600)	(1,448)	(152)
Changes in working capital other than cash	10,12	-	(1076)	1076
Changes in creditors falling due after more than one year	12	-	-	-
Net Cash Requirement		175,300	166,449	8,851

4. Analysis of income payable to the Consolidated Fund

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

	Forecast 2008-09		Outturn 2008-09	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Other amounts collectable on behalf of the Consolidated Fund	-	-		
Non-operating income and receipts – excess A in A				
Excess cash surrenderable to the Consolidated Fund	-	-	119	<i>119</i>
Total income payable to the Consolidated Fund	-	-	119	<i>119</i>

5. Non-Operating income

	2008-09	2007-08
	£000	£000
Disposal of fixed assets	1	1

6. Members numbers and costs

6.1 Members costs comprise:

	2008-09	2007-08
	£000	£000
Members' salaries	41,465	40,245
Resettlement Grant	-	-
London Supplement	154	141
Social security costs	4,183	4,124
Other pension costs	12,455	12,000
Total net costs	58,257	56,510

There are 646 seats in the House of Commons. During 2008-09, a total of 641 Members took up their seats with 5 Members abstaining from taking the oath. The annual salary of each Member was £63,291. Members representing Inner London constituencies received London Supplement (£2,916 per annum) up to 31 March 2009 (this was abolished with effect from 1 April 2009 and replaced by the London Costs Allowance (£7,500 per annum), which is available to all Members who do not claim the Personal Additional Accommodation Expenses). Included in the Members' salary costs are the additional salaries for the Chairman of Ways and Means (£40,760), two Deputy Chairmen of Ways and Means (£35,823 each), thirty one Chairmen of the Select Committees (£14,039 each) and the thirty two Chairmen of the Standing Committees (£2,802 - £14,039 each).

6.2 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. The last full valuation of the HCMF was as at 30 September 2006 when the Government Actuary assessed the value of the assets at £4.604 million. The total liability of the fund was £2.323 million, giving a surplus of £2.281 million.

7. Net programme costs

	Note	2008-09		2007-08	
		£000	£000	£000	£000
Other Costs – Members' Staff Salaries, Staff Pensions and other expenses					
Cash Items					
Staffing Allowance		59,962		55,452	
Incidental Expenses Provision		11,333		11,524	
Additional Costs Allowance		10,684		11,634	
Communications Allowance		5,126		4,699	
Travel expenses		5,985		6,193	
Contributions to Members' staff pensions		5,259		4,854	
Winding Up Allowance		132		56	
Central service provision		2,873		1,308	
Staff redundancy		33		20	
Insurance		172		177	
Temporary secretarial assistance		457		399	
Ex-gratia payments		-		4	
Grants to other bodies					
Financial assistance to Opposition parties		6,981		6,790	
Members' Fund		215		215	
Other		38		38	
Subtotal			109,250		103,363
Non-cash items					
Depreciation and amortisation of fixed assets:					
Tangible fixed assets	8	710		714	
Intangible fixed assets	9	-		5	
Gain on disposal of fixed assets		(1)		(1)	
Pension provision	13	5,245		2,500	
Notional Audit fee:				50	
UK GAAP		50			
IFRS		5			
Capital charge		(4,561)		(3,831)	
Subtotal			1,448		(563)
Grand Total			110,698		102,800

8. Tangible fixed assets

The tangible fixed assets consists of IT equipment

	2008-09
	£000
Cost	
At 1 April 2008	3,124
Additions	19
Disposals	(1)
Loss on revaluation	-
Gain on revaluation	-
At 31 March 2009	3,142
Depreciation	
At 1 April 2008	1,869
Charge in year	710
Disposals	(1)
Revaluation	-
At 31 March 2009	2,578
Net book value at 31 March 2009	564
Net book value at 31 March 2008	1,255

9. Intangible fixed assets

The House's intangible fixed assets comprise software licences.

	2008-09
	£000
Cost or valuation	
At 1 April 2008	20
Additions	-
Disposals	-
At 31 March 2009	20
Amortisation	
At 1 April 2008	20
Charged in year	-
Disposals	-
At 31 March 2009	20
Net book value at 31 March 2009	-
Net book value at 31 March 2008	-

10. Debtors

	As at 31 March 2009	As at 31 March 2008
	£000	£000
Amounts falling due within one year:		
Members	24	35
Deposits and advances	57	39
Other debtors	124	458
Prepayments and accrued income	139	148
	344	680

Included in the debtors is an amount of £4,000 that will be paid to the Consolidated Fund when received. Other amounts, relating to voluntary repayments by Members during 2009-10 are not included in the 2008-09 debtor figure. The income received will be paid to the Consolidated Fund in 2009-10. (See Note 22)

All monies relating to the debtors disclosed in the narrative of the 2007-08 Accounts have now been repaid.

11. Cash at bank and in hand

	As at 31 March 2009	As at 31 March 2008
	£000	£000
Balance at 1 April	256	259
Net change in cash balances	43	(3)
Balance at 31 March	299	256
The following balances at 31 March were held at:		
Office of HM Paymaster General	299	256
Commercial banks and cash in hand	-	-
Balance at 31 March	299	256
Amounts issued from the Consolidated Fund but not spent at year end	254	255
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	45	1
	299	256

12. Creditors

	As at 31 March 2009	As at 31 March 2008
	£000	£000
Amounts falling due within one year		
Other taxation and social security	3,077	2,897
Members	102	130
Other creditors – current	733	1,822
Other creditors - capital	-	-
Accruals and deferred income	7,972	6,295
	11,884	11,144
Amounts issued from the Consolidated Fund for supply but not spent at year end	254	255
Consolidated Fund extra receipts due to be paid to the Consolidated Fund		
received	45	1
receivable	-	-
	12,183	11,400

13. Provisions and liabilities

The PCPF is a defined benefit scheme. The Government Actuary's Department (GAD) provided an estimate of the financial position as at 31 March 2009. A full actuarial valuation was carried out during 2008-09. The major assumptions used by GAD, which reflect external market conditions, were:

	As at 31 March 2009	As at 31 March 2008
Rate of increase in salaries	4.5%	5.2%
Rate of increase in pensions in payment and deferment	3.0%	3.7%
Discount rate	6.9%	6.9%
Inflation assumption	3.0%	3.7%
	2008-09	2007-08
	£000	£000
Movement in deficit during the year		
Deficit in scheme at beginning of year	(97,943)	(103,143)
Current service cost (net of member contributions) ¹	(11,500)	(15,400)
Employer contributions	12,455	12,000
Other finance income ²	(6,200)	900
Actuarial (loss)/ gain ³	(39,300)	7,700
Deficit in scheme at end of year	(142,488)	(97,943)
¹Analysis of amounts charged to operating profit		
Current service cost (net of member contributions)	11,500	15,400
	11,500	15,400
²Analysis of amount credited to finance income/(expense)		
Expected return on pension scheme assets	25,300	27,000
Interest on pension scheme liabilities	(31,500)	(26,100)
Net return	(6,200)	900
³Analysis of amount recognised in Statement of Recognised Gains and Losses (SRGL)		
Actual return less expected return on pension scheme assets ⁴	(106,500)	(39,100)
Experienced gain/(loss) arising on the scheme liabilities	5,900	(1,400)
Changes in assumptions underlying the present value of the scheme liabilities	61,300	48,200
Actuarial (loss)/gain recognised in SRGL	(39,300)	7,700
Benefits paid	14,100	13,700
Member contributions	(4,600)	(4,300)

⁴The return on pension scheme assets fluctuates year on year depending on external markets conditions. A deterioration in market returns during the year gave rise to a significant loss being shown at 31 March 2009.

The provision used in year was £5,245,000 (i.e. current service cost £11,500,000 less employer contributions £12,455,000 and other finance expense (£6,200,000)).

Analysis of Assets and Liabilities	Long term rate of return 2008-09	Value at 31 March 2009	Value at 31 March 2008
		£million	£million
Equities	6.7%	217	273
Bonds	3.7%	72	87
Others	5.25%	-	7
Total value of assets		289	367
Present value of Fund liabilities		(432)	(465)
Net pension liability		(143)	(98)

	2008-09 £000	2007-08 £000	2006-07 £000	2005-06 £000
Difference between expected and actual return on assets:				
Amount	(6,200)	900	(1,000)	(2,000)
As a percentage of the scheme assets at the Balance Sheet date	4.3%	0.9%	1.0%	1.5%
Experienced (gain)/loss arising on the scheme liabilities:				
Amount	5,900	(1,400)	5,900	4,000
As a percentage of the present value of the scheme liabilities at the Balance Sheet date	4.1%	1.4%	5.7%	3.1%
Total actuarial gain/(loss):				
Amount	(39,300)	7,700	33,500	(7,500)
As a percentage of the present value of the scheme liabilities at the Balance Sheet date	27.5%	7.9%	32.5%	5.4%

14. General Fund

		As at 31 March 2009	As at 31 March 2008
	Note	£000	£000
Balance at 1 April		(107,152)	(111,750)
Net Parliamentary funding			
Drawn down		166,448	159,990
Deemed		255	254
Year end adjustment			
Supply creditor – current year	11	(254)	(255)
Net transfer from operating activities			
Net operating cost	6 & 7	(168,955)	(159,310)
Non cash charges			
Cost of capital		(4,561)	(3,831)
Auditors' remuneration		55	50
Actuarial (loss)/gain recognised in SRGL	13	(39,300)	7,700
Balance at 31 March		(153,464)	(107,152)

15. Notes to the Cash Flow Statement**15(a) Reconciliation of operating cost to operating cash flows**

	Note	2008-09 £000	2007-08 £000
Net operating cost	6 & 7	(168,955)	(159,310)
Adjustments for non-cash transactions	7	1,448	(563)
(Increase)/decrease in debtors	10	336	(292)
(Decrease)/increase in creditors	12	740	226
Net cash outflow from operating activities		(166,431)	(159,939)

15(b) Analysis of capital expenditure and financial investment

	Note	2008-09 £000	2007-08 £000
Tangible fixed asset additions	8	(19)	(51)
Intangible fixed asset additions	9	-	-
Proceeds on disposal of fixed assets	5	1	1
Net cash outflow from investing activities		(18)	(50)

15(c) Analysis of financing

	Note	2008-09 £000	2007-08 £000
From the Consolidated Fund (Supply) – current year	14	166,448	159,990
From the Consolidated Fund (Supply) – prior year	14	-	-
Net financing		166,448	159,990

15(d) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2008-09 £000	2007-08 £000
Net cash requirement	3	(166,449)	(159,989)
From the Consolidated Fund (Supply) – current year	14	166,448	159,990
From the Consolidated Fund Supply – prior year	14	-	-
Amounts due to the Consolidated Fund received in prior year and paid over		(1)	(5)
Amounts due to the Consolidated Fund received and not paid		45	1
Increase/(Decrease) in cash		43	(3)

16. Capital commitments

There were no capital commitments as at 31 March 2009 (none at 31 March 2008).

17. Contingent liabilities disclosed under FRS 12

There are currently no contingent liabilities required to be disclosed under FRS 12.

18. Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

There are currently no contingent liabilities not required to be disclosed under FRS 12, but which need to be included for parliamentary reporting and accountability purposes (none the previous year).

19. Losses and special payments**Losses Statement**

	<u>2008-09</u>	<u>2007-08</u>
	<u>£000</u>	<u>£000</u>
Total	58	34

20. Related-party transactions

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

The Register of Members' Interests provides information of any pecuniary interest or other material benefit which a Member receives which might reasonably be thought by others to influence his or her actions, speeches, or votes in Parliament, or actions taken in his or her capacity as a Member of Parliament. The Register is published soon after the beginning of a new Parliament under the authority of the Select Committee on Standards and Privileges, and annually thereafter. Between publications the Register is regularly updated in a loose leaf form and this is available for public inspection in the Committee Office of the House of Commons. Employment agreements deposited with the Registrar are available for personal inspection only.

The House of Commons: 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.

21. Financial Instruments

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

22. Post balance sheet events

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

Public release of Members' claims receipts for 2004-05 to 2007-08 highlighted a number of discrepancies that are currently being investigated. It has further led the Speaker to announce a review of all ACA claims made by Members, except those who have since died, during 2004-05 to 2007-08. This review, led by Sir Thomas Legg KCB QC, will report to the MEC in the autumn of 2009. A number of Members have voluntarily repaid allowances that relate to a number of financial years. The amounts were received post 31st March 2009 and will therefore be paid to the Consolidated Fund in the 2009-10 financial year.

A Parliamentary Standards Bill was introduced in the House of Commons on the 23 June 2009. The Bill makes provision to establish a body corporate known as the Independent Parliamentary Standards Authority and an officer known as the Commissioner for Parliamentary Investigations; provision relating to salaries and allowances for Members of the House of Commons and to their financial interests and conduct; and for connected purposes.

House of Commons: Members Estimate

Audit Committee Annual Report

2008-09

Members Estimate Audit Committee Annual Report of meetings held in 2008-09

Introduction

1. This is the fifth annual report of the House of Commons Members Estimate Audit Committee, which was established by the House of Commons Members Estimate Committee on 14 June 2004, following changes to the governance structure for the Members Estimate agreed by the House in January 2004.

Membership

2. The Rt. Hon Theresa May MP served as Chairman of the Committee from the start of the financial year until 26 January 2009, when Alan Duncan MP was appointed Chairman. In appointing Mr Duncan the MEC declined to follow Sir Kevin Tebbit's recommendation in his 2007 *Review of Management and Services of the House of Commons*, that one of the external members of the MEAC should act as its Chairman.
3. During 2008/09 Nick Harvey MP served as a member and Sir Thomas Legg KCB QC and David Taylor FCA as external members of the Committee. The Commission agreed to Sir Kevin's recommendation that a member of the Finance and Services Committee should be appointed to the MEAC, appointing Mr Clive Betts MP on 19 May 2008. It also agreed to the recommendation that a third external member should be appointed, appointing Alex Jablonowski, external member of the House of Commons Management Board on 17 November 2008. The membership of the Administration Estimate Audit Committee also reflects these changes.
4. The Clerk of the House, the Director General, Resources, the Director of Internal Audit and the Secretary of the Management Board attend meetings, although they may withdraw for specific items at the Committee's, or their own request. Paul Dillon-Robinson replaced Richard Russell who retired as the Director of Internal Audit in July 2008.
5. The Committee's secretary is the Private Secretary to the Clerk of the House, Hannah Weston, who replaced Tracey Garratty in November 2008. A part time Committee Assistant came into post in October 2008, increasing the administrative support available to the Committee.
6. In January 2009 the Committee agreed to start the process of recruiting two new external members, to replace Sir Thomas Legg and David Taylor when their contracts end in August 2009 and June 2010 respectively. Six potential candidates were interviewed by the Chairman of the Committee, Alex Jablonowski, Andrew Walker (Director General, Resources), Malcolm McCaig (member of the House of Lords Audit Committee) and the Committee Secretary. At its first meeting in 2009/10 the Committee was asked to agree the interview board's two recommendations to the Commission for appointment.

Terms of Reference

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

Meetings

8. The Committee met seven times in the financial year 2008/09.

Information about the Committee

9. The Committee has a page on the Parliament website on which are published its membership, terms of reference and annual reports. Formal minutes of meetings are also published online.

Administration Estimate Audit Committee

10. The Members Estimate Audit Committee has the same membership as the Administration Estimate Audit Committee (AEAC) and usually meets immediately after meetings of the AEAC. 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 but minuted separately.
11. The Committee has agreed to adopt the same arrangements and procedures as the AEAC, as far as is practicable. Consequently:
 - representatives from the National Audit Office (NAO) and PricewaterhouseCoopers, who work with the House's Internal Audit Unit, usually attend meetings of the Committee;
 - internal audit reports are considered first by the external members of the Committee, who may refer matters for discussion by the full Committee; and
 - notwithstanding the difference in the roles of the Commission and the Members Estimate Committee in respect of the two House Estimates, the same procedure is used for advising the Accounting Officer on the Members Accounts as is used in relation to the Administration Accounts.
12. The annual report of the AEAC will be published with the House of Commons Commission's Annual Report for 2008/09 in the summer of 2009.

Internal audit

13. In April 2008 the Committee agreed an IA programme for 2008/09 which did not include any audits relating to the Members Estimate, on the basis that this should be formulated following the outcome of the MEC's review of members' allowances, which was expected in July 2008. Following a debate in the House, the review was not fully accepted and, despite further decisions by the House during the course of the financial year, clarity on the nature of a future regime for the administration, governance, audit and assurance of Members' allowances was still lacking at year-end. The involvement of the MEAC is discussed in more detail below.
14. During the course of the year, the Committee discussed follow-up work on two audits undertaken in the previous financial year, relating to the winding up allowance and members' staff redundancy payments. A review of payroll for both the Members and Administration estimates was initiated but had not been reported to the Committee by year-end. Other IA work on the Members Estimate focused on the quality control and management information arrangements around the management of Members' allowances.

Members' allowances

15. Since the creation of the MEAC in 2004, the Committee has been concerned about the matter of auditing of Members expenses and allowances, and has discussed the need for appropriate governance, audit and assurance on a number of occasions.
16. In December 2004, the two external members put a paper to the Committee drawing attention to the reputational risks to the House of not having a clear and defensible system for ensuring proper accountability for the public money expended on MPs' allowances. The paper proposed that:
 - (i) the rules in the Green Book should be reviewed and supported by further guidance; and,
 - (ii) a proper system of audit, going behind Members' signatures, should be introduced (taking the form of random checks) to verify the propriety of their use of the money so expended.
17. The Committee's then Chairman forwarded this paper to Mr Speaker, who replied in February 2005 that the MEC was not minded to pursue the issue of external verification any further, although it agreed that the MEAC should have an opportunity to participate in the review of the Green Book by then under way.
18. In early 2008 the MEC decided to undertake an inquiry into Members' allowances. This decision followed a combination of events: the referral to the MEC of the recommendations on Members' allowances made by the Senior Salaries Review Body in July 2007; the publishing of a report by the Standards and Privileges Committee on the conduct of a Member who was found to have misused the staffing allowance in the employment of relatives; and, criticism by the Information Tribunal of the operation of the Additional Costs Allowance in its decision of 26 February on the House's appeal against the Information Commissioner's decisions requiring disclosure of information about 14 Members' claims under the allowance.
19. The external members of the Committee responded to an "issues paper" on Members' allowances published by the MEC in April 2008. The resulting MEC report was debated by the House on 3 July but only some of its recommendations were accepted. The Committee felt that this limited the assurance that the new system would provide. The House took further decisions relating to the audit of Members allowances following debate on an opposition motion on 16 July. In August, the Leader of the House of Commons issued a consultation paper on audit and assurance of MP's allowances.
20. In October, at the request of the MEC, MEAC undertook a review of audit and assurance arrangements for spending on Members' allowances. This review took place at the same time as the redrafting of the Green Book by the Advisory Panel on Members' Allowances (APMA). MEAC held an additional meeting in early December to agree a report to the MEC. The MEC published the MEAC's resulting report as an annex to its first report of Session 2008/09 (*Revised Green Book and audit of Members' allowances* HC142). The Committee was pleased that the report's recommendations for a new system of audit and assurance for Members' allowances were all accepted following a debate in the House on 22 January 2009. It felt the need for a new system of audit and assurance had been amply demonstrated. Subsequent press attention to Members' use of allowances and increasing public concern has borne out this view.
21. The MEAC held two further additional meetings in March 2009 to assess progress towards the implementation of the new system. It was disappointed that various complexities in governance which remained to be resolved, together with logistical issues meant the new system would not be in place from 1 April 2009. External

members of the Committee expressed particular concern about the proposed governance system in which Member committees would be responsible for both formulating rules and determining appeals regarding adherence to them. The Committee noted that this was contrary to best practice.

22. In April 2009, following widespread press coverage of Members' allowances, the Prime Minister asked the Committee on Standards in Public Life to bring forward its proposed inquiry into Members' allowances, and subsequently issued his own proposals for reform of the system. Sir Christopher Kelly announced his expectation that his inquiry would report late in 2009.
23. At a meeting on 20 May, following a statement by the Speaker and a meeting of Party leaders on 18 May, the MEC agreed a series of changes to the Green Book, to apply to expenditure incurred after 19 May and any claims received by the Department of Resources after 1 June. Restrictions were placed on claims against the allowance for Personal Additional Accommodation Expenditure (PAAE) and changes in the designation of main and additional homes were disallowed. The Department of Resources was instructed to make arrangements for the quarterly publication of transaction-level information from the start of the current financial year.
24. The MEC also directed the Accounting Officer to instruct the Department of Resources to make arrangements for a re-examination of claims under the former Additional Costs Allowance over the period 2004/05 to 2008/09. After consultation with the Comptroller and Auditor General, Sir Thomas Legg was appointed to lead this review, resigning from his position as external member of the Audit Committees in order to do so. Sir Thomas's team is composed of a mixture of current and former in-house staff and staff of the Office for National Statistics, supported by a small team from PricewaterhouseCoopers. The team will look at claims in relation to the rules which existed at the time. Sir Thomas has said that he expects to issue his report in early September 2009.
25. The Committee will continue to monitor developments in this area and provide advice and expertise to the House and its Committees as appropriate.

External audit

26. During the financial year the Accounting Officer invited the NAO to undertake a trial run of full scope audit work on the Members Estimate. The work covered claims on five allowances under the Members Estimate, and was based on the substantive testing which the NAO would undertake on the accounts if asked to provide a full scope audit opinion. Interim results of this work were reported to the Committee at its October meeting, and a further report was made in April 2009.
27. The NAO's trial run did not include the entire spectrum of work which would be undertaken on a full year full scope audit. For example, it did not include an advance risk assessment to allow the NAO to identify where to concentrate its work and how much work to undertake, in order to support the audit opinion. Nevertheless, the NAO's trial run provided a useful first impression of how a full scope audit would look in operation. The Committee noted that it did not give grounds for serious concern about Members' use of their allowances.

House of Commons: Members Accounts

28. The external members of the Committee met with NAO and Department of Resources staff in June 2008 to discuss the draft House of Commons: Members Accounts for

2007/08. Following this the accounts were discussed by the full Committee at its 9 July 2008 meeting prior to being signed off by the Clerk of the House, as Accounting Officer.

29. Amongst the issues noted by the Committee were: the difficulty of predicting expenditure on the Estimate, which had been increased by the introduction of the Communications Allowance; and the timetable for the implementation of decisions made by the MEC regarding the Members Fund.
30. The Committee also received an audit completion memorandum for 2007/08 and discussed an audit strategy memorandum for 2008/09 from the National Audit Office. It discussed the possibility of amending or removing the restriction on the scope of the NAO's audit to allow full-scope audit to take place. This would allow for the possibility that, if the Accounting Officer felt he had received sufficient assurance that Members were expending their allowances for parliamentary purposes, achieving value for money, and complying with all legal requirements, he might consider removing the qualification in his Statement on Internal Control.

Annex

The Committee's current terms of reference are shown below:

On behalf of the Members Estimate Committee, to:

- have general oversight of the work of internal audit and review relating to the Members Estimate, with particular emphasis on promoting economic, efficient and effective administration, and on risk assessment and control assurance;
- receive and consider reports from Internal Audit (IA), together with management letters and external audit material relating to the Members Estimate;
- monitor and review the external auditor's independence, objectivity and effectiveness, and to make recommendations to the Members Estimate Committee about the external auditor's appointment;
- advise the Accounting Officer in the exercise of his responsibilities;
- consider and recommend to the Accounting Officer the internal review programme for the Members Estimate;
- encourage best financial practice, use of resources and governance in relation to the Members Estimate;
- report annually, the report to be published with the Members Estimate annual accounts.