

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

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

2009-10

(for the year ended 31 March 2010)

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House of Commons: Members Estimate

Annual Report

2009-10

House of Commons: Members Estimate 2009-10 Annual Report

Introduction

1. This report sets out the main developments on the House of Commons: Members Estimate for 2009-10 and draws attention to developments planned for 2010-11.

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. It 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. During 2009-10 it provided 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 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.

5. With effect from the General Election on 6 May 2010, responsibility for much of the Members Estimate transferred to the Independent Parliamentary Standards Authority (IPSA) including responsibility for the payment of salaries and expenses of Members.

Members' allowances

6. A new Green Book came into force on 1 April 2009. It re-iterated a number of principles that Members must adhere to when making claims:

- 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.

7. The Green Book was subsequently updated in July 2009 to reflect decisions taken by the House and Members Estimate Committee (MEC). The new expenses scheme run by the IPSA came into effect from the 2010 General Election and supersedes much of the Green Book.

Administration of the allowances

8. On 30 March 2009 the then Prime Minister wrote to Sir Christopher Kelly, Chairman 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. In May 2009, scanned images of Members claims were published by the Daily Telegraph in advance of the proposed publication on the Parliamentary website. The public concern caused by the release of that information led to the then Speaker meeting the Prime Minister, the Leader of the Opposition and the Leader of the Liberal Democrats. On 19 May the Speaker made a number of changes to the allowances system, including reducing considerably the number of items that could be claimed as Personal Additional Accommodation Expenditure (PAAE) and introducing a test of reasonableness for all claims. On the same day the Prime Minister released a statement in which he announced that Members' allowances would in future be the responsibility of a new authority. These changes were endorsed by the MEC on 20 May and codified in the July 2009 revision of the Green Book. Also, from 1 July 2009, evidence in the form of invoices or receipts was required for all items of expenditure. This represented a further tightening of the previous £25 threshold introduced from 1 April 2008.

9. The Parliamentary Standards Bill was published on 23 June 2009 and was given Royal Assent on 21 July 2009. The Act provides for a statutory Independent Parliamentary Standards Authority (IPSA) and Commissioner for Parliamentary Investigations.

10. In May 2009, the MEC announced a review of all former Additional Costs Allowance (ACA) claims (since replaced by the PAAE) made by Members (except those who had since died) between 2004-05 and 2007-08, subsequently extended to cover 2008-09 claims. This review was undertaken by a team led by Sir Thomas Legg KCB QC and was completed in late 2009. Sir Thomas's report was published on 4 February 2010 (HC348) and identified £1.3 million potential repayments. Following a number of appeals, which were reviewed by the Rt Hon Sir Paul Kennedy, this figure was reduced to £1.1 million. In the event a total of £1.2 million was returned, including £154,849 of voluntary repayments by Members. A total of £34,049 was owed by current Members at 31 March 2010, all of which has subsequently been repaid. £51,523 remained outstanding from former Members at 31 March 2010. A provision has been set for £35,278 and the remainder has either been repaid or an agreement is in place to repay.

11. The CSPL published its report in November 2009. The report made a number of recommendations including giving IPSA the power to determine the pay and pensions of Members as well as their expenses, a tightening up of second home claims, including the removal of the right to claim mortgage interest, and that Members with constituencies within "reasonable commuting distance" of Parliament should no longer be able to claim for a second home. It also recommended that the practice of Members employing members of their families should be brought to an end. On 7 January 2010 the IPSA published a consultation paper on the allowances scheme and used the CSPL report as a basis for it.

12. On 23 November 2009 the MEC decided to restrict the claims allowed against Communications Expenditure from 1 January 2010.

13. The Independent Parliamentary Standards Authority published its consultation on Members' expenses in January 2010 and its final scheme on 30 April 2010 (HC501). This supersedes the House's expenses scheme. A number of areas remain with the House, including the administration of Members' and Members' staff pensions and training for Members' staff.

14. The Constitutional Reform and Governance Act 2010, given Royal Assent on 5 April 2010, included amendments to the Parliamentary Standards Act 2009. This set out the responsibilities of the Compliance Officer and membership of the Speaker's Committee for the IPSA. It further introduced amendments with regard to the general duties of the IPSA, including the determination of Members' salaries and allowances.

Trends and developments

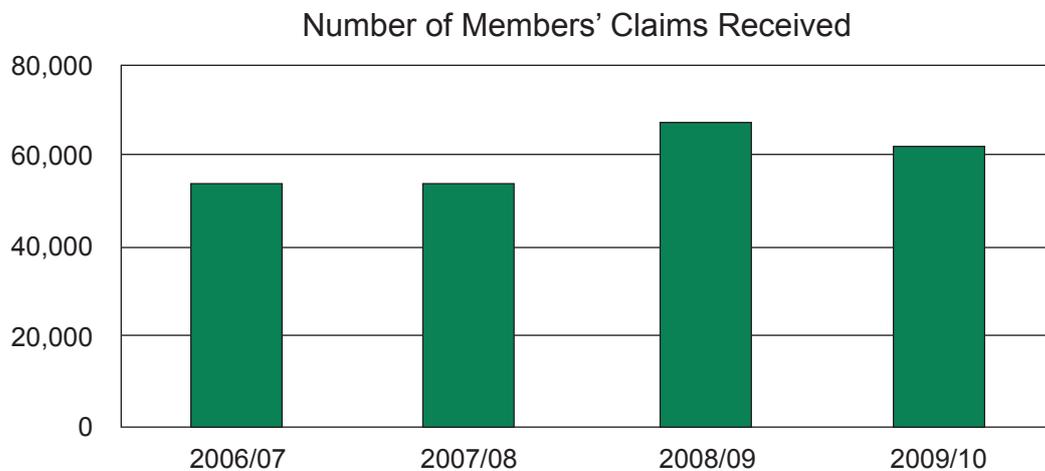
(i) Members' pay

15. In accordance with the House's Resolution of 3 July 2008, responsibility for determining the annual percentage increase in Members' pay rests with the Review Body on Senior Salaries (SSRB). On their recommendation, Members' pay was increased by 2.33% to £64,766 for 2009-10 and by 1.5% from 1 April 2010, which took Members' salary to £65,738. A number of Members chose not to take one or both of these pay increases.

16. Members' pension benefits are similarly determined by a Resolution of the House following recommendations made by the SSRB. The Constitutional Reform and Governance Act 2010 allows for the transfer of this function to IPSA at some future date.

(ii) Members' claims

17. During 2009-10 the Department of Resources processed almost 62,000 claims from Members for Personal Additional Administration Expenditure (PAAE), Administrative and Office Expenditure (AOE), Communications Expenditure (CE) and Staffing Expenditure (SE). This represents a decrease in the number of claims over the previous year, largely as a result of the changes to the CE from 1 January 2010.



(iii) ICT

18. Members are entitled to a set of loaned computer equipment and associated services, funded from the Estimate. Members can also use their allowances to purchase additional equipment that is configured to ensure its compatibility with parliamentary systems. Responsibility for providing this equipment and connecting it to the Parliamentary Network falls to the Parliamentary Information and Communications Technology (PICT) service.

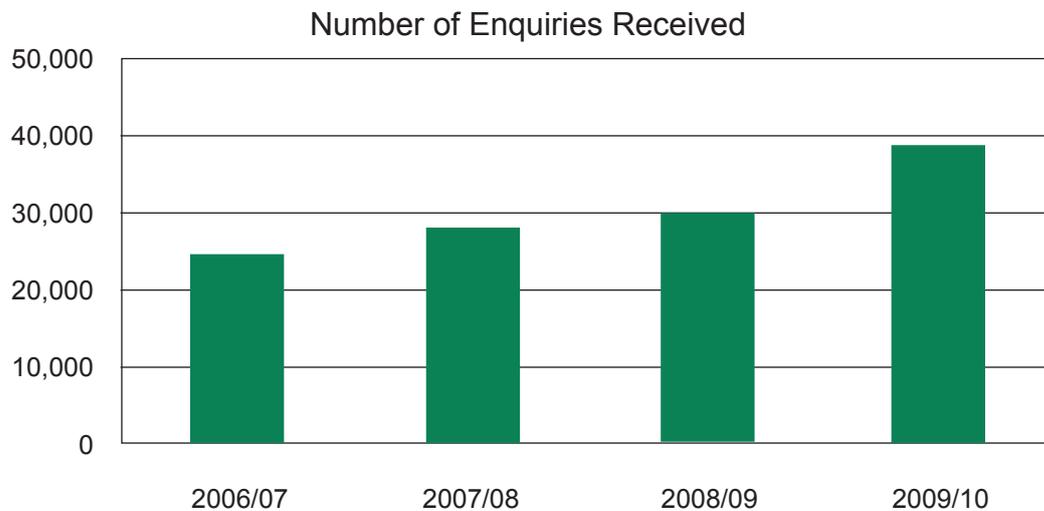
(iv) Advice and support

19. The Members' Centre in Portcullis House is a cross-departmental service point for Members and their staff. It is intended to make the work of Members and their staff easier by bringing together in one location access to a wide range of the services provided by the House. Staff of the Centre aim to help Members and their staff with any issue or inquiry that they may have, and either resolve it

themselves or direct them to someone who can. During 2009-10 there were 13,155 visitors (7,511 visitors between its establishment in July 2008 and the end of March 2009), including a high proportion of Members, with enquiries about allowances, IT kit and general research issues.

20. The Members' Centre is one of the ways in which the Management Board is seeking to improve services to Members and their staff. Users are encouraged to provide feedback which will be crucial in establishing how the House service can further improve both the Centre and wider services. Members using the service have found it very useful, and return regularly.

21. The Enquiries and Advice Team (EAT) in the Department of Resources continued to respond to enquiries and received nearly 39,000 calls during 2009-10 from Members, Members' staff and suppliers. They answered 95.9 per cent of them first time, just below the target of 96 per cent. The full year figures for 2008-09 were over 30,000 calls with 98 per cent of them answered first time. The difference in service levels has been the result of the transition of experienced staff to IPSA and the requirement to recruit and train a number of less experienced staff.



(v) Members' travel

22. There were about 39,000 individual transactions with a total value of £5.4 million during the year. The vast majority of Members used their corporate travel card, introduced following the withdrawal of travel warrants, to purchase travel tickets. This facility was withdrawn from the Dissolution of Parliament as IPSA will operate its own system.

23. Members continued to be encouraged to make use of the Parliamentary Travel Office in order to benefit from the advantageous air fares that they have negotiated. In addition, Members have been encouraged to purchase railcards where available and to book journeys well in advance to help reduce overall travel costs. The contract for the Travel Office transferred to Hillgate Travel during the course of 2009-10, following a full EU tender exercise.

(vi) Members' staff

24. As at 31 March 2010 the number of permanent staff was 2,918. This represents an increase of 233 staff (8%) since 31 March 2009, and is the result of an increase in the staffing allowance for 2009-10. Staffing expenditure increased by 5%.

25. Members' staff join the Portcullis Pension Plan, a stakeholder pension arrangement organised by the House on behalf of Members, unless they nominate to opt out of the arrangement. The Plan provides for a pension contribution paid by the House equivalent to 10 per cent of the employee's earnings. Each employee can decide how this is split between the two providers, Aviva and AXA Sun Life, and how the funds are invested. If no decision is made by the employee, the contributions are split equally between the two providers and invested in each company's 'default investment fund'. Employees can also make voluntary contributions if they wish. In addition, all the members of the Plan, together with other Members' staff who have not joined the Plan, benefit from death in service

cover of twice their salary. When the Plan was first set up, a small group of employees who met certain criteria were allowed to stay with their existing providers. Currently, the pension take up rate is over 99 per cent of eligible employees.

26. From 7 May 2010, the 10 per cent contribution is paid by IPSA from the employing Members' Staffing Expenditure budget. The House paid the contributions on behalf of IPSA for the period 7-31 May 2010. From 1 June 2010 IPSA assumed responsibility for these payments. However, the Pensions Unit within the Department of Resources continues to administer the Plan on behalf of IPSA.

27. The current contract for providing training to Members' staff is with Capita Learning and Development. During 2009-10 they offered a number of IT and general training courses. These included a very popular induction day, dealing with difficult and potentially violent visitors, and IT applications such as spreadsheets and desk top publishing. These are provided free of charge to all employees of Members who are paid from Staffing Expenditure. Members may also attend. The total cost of providing courses in 2009-10 was £200,000. In addition, £40,000 has been expended on developing an e-learning system which was launched in June 2010. Since the launch of the system over 100 Members' staff have signed up, most of them constituency-based. As well as continuing with face-to-face courses, the new arrangements will allow the development of distance learning packages to help those Members' staff unable to attend centrally-delivered courses. Members' employees who attend other types of training course can reclaim reasonable travel costs.

28. During the year the House continued to sponsor the website www.w4mp.org.uk, which provides information for Members' staff about working for an MP, including training available, and advertises job opportunities with Members.

29. There were 86 claimants of childcare vouchers for Members' staff at the end of 2009-10. Payments for the year were just short of £165,000. By the year end, 62% had been converted to electronic vouchers. For 2010-11 the House only administered this scheme up until the General Election, and after that Members' staff vouchers became the responsibility of IPSA. The House continued to pay vouchers for the staff of Members who are standing down, retiring or are not re-elected until such time as they were made redundant.

30. During the year, the House concluded a memorandum of understanding with the two main bodies representing Members' staff, UNITE and the Members' and Peers' Staff Association (MAPSA). While they cannot be recognised trades unions for the purpose of current employment legislation, as the staff concerned are employees of Members rather than of the House itself, the House wishes to understand and take account of the views of UNITE and MAPSA. The memorandum makes provision for consultation in a number of areas which affect Members' staff.

31. A House of Commons Nursery, operated by the London Early Years Foundation (LEYF) was opened on 1 September 2010. It has capacity for 40 children, aged three months to five years, and is open to children of Members, Members' staff and House staff.

**House of Commons:
Members Estimate
Resource Accounts
2009-10
*(for the year ended 31 March 2010)***

Foreword to the Accounts

As at 31 March 2010

Scope of the Estimate

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.

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. Until the General Election on 6 May 2010, the Estimate provided 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 (SE)* pays for the equivalent of up to three and a half full-time members of staff;
- *Administrative and Office Expenditure (AOE)* 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)* 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 PAAE, but are paid a London supplement;
- *Communications Expenditure (CE)* allows Members to communicate proactively with their constituents, and is used typically to produce newsletters, annual reports and pay for Parliamentary websites. On 23 November 2009 the Members Estimate Committee (MEC) decided to restrict the claims allowed against Communications Expenditure from 1 January 2010;
- *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 Staffing Expenditure for each Member;
- The *general services budget* provides IT equipment for use by Members, communications, training, assistance for Members with disabilities, various insurances and other incidental expenditure.

In accordance with the agreement with IPSA about transitional arrangements, the House retained responsibility for the following allowances after the Election. These arrangements will not be in place for any subsequent Elections when responsibility for the winding up of offices will transfer to IPSA.

- 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* 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;

The following remains the responsibility of the House

- *Financial Assistance to Opposition Parties* (“Short Money” and “Representative Money”) is available to help Opposition parties to carry out their parliamentary business;
- *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 or from the TSO website <http://www.official-documents.gov.uk>.

During the year each Member was entitled to a salary of £64,766 and were able to draw on Staffing Expenditure of £103,812; Administrative and Office Expenditure of £22,393; Personal Additional Accommodation Expenditure of £24,222 and Communications Expenditure of £10,400.

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, itself a statutory body.

The functions of the Committee are:

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

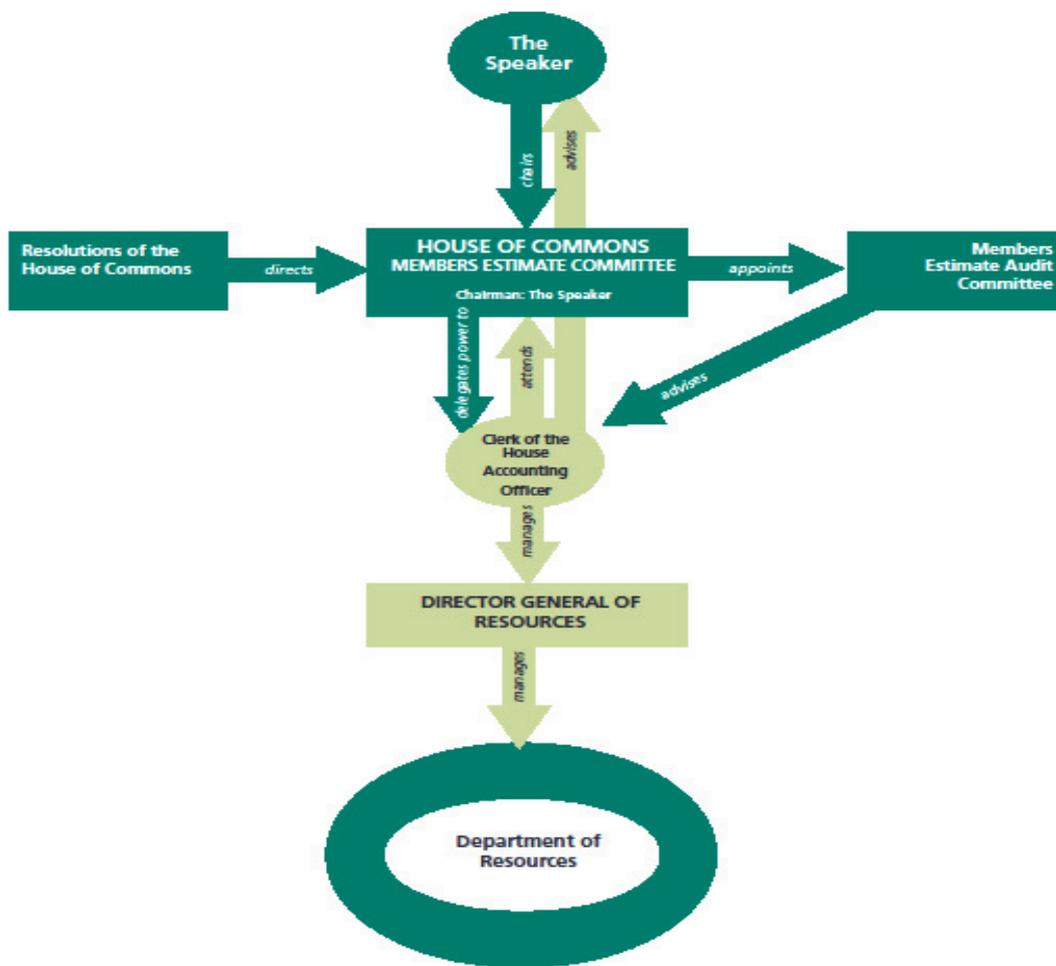
The Committee is not empowered to create a new form of charge on the Estimate, or to increase any rate of charge or payment determined by Resolution of the House.

A consolidated list of the Resolutions of the House relating to expenditure charged to the Estimate was published by the Members Estimate Committee on 1 April 2009 (HC281).

There were 646 elected Members of the House as at 31 March 2010. This became 650 from the General Election on 6 May 2010. 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.

The House of Commons is committed to the prompt payment of all properly supported Members' claims and third party payments to statutory bodies and external suppliers.

Summary of the Members Estimate governance arrangements:



Pensions administration

All Members are entitled to join the Parliamentary Contributory Pension Fund (PCPF). The PCPF is governed by ten trustees, eight of whom are appointed by the House of Commons and two who are pensioner trustees. The administration of the PCPF is undertaken by an external organisation, rpm Ltd.

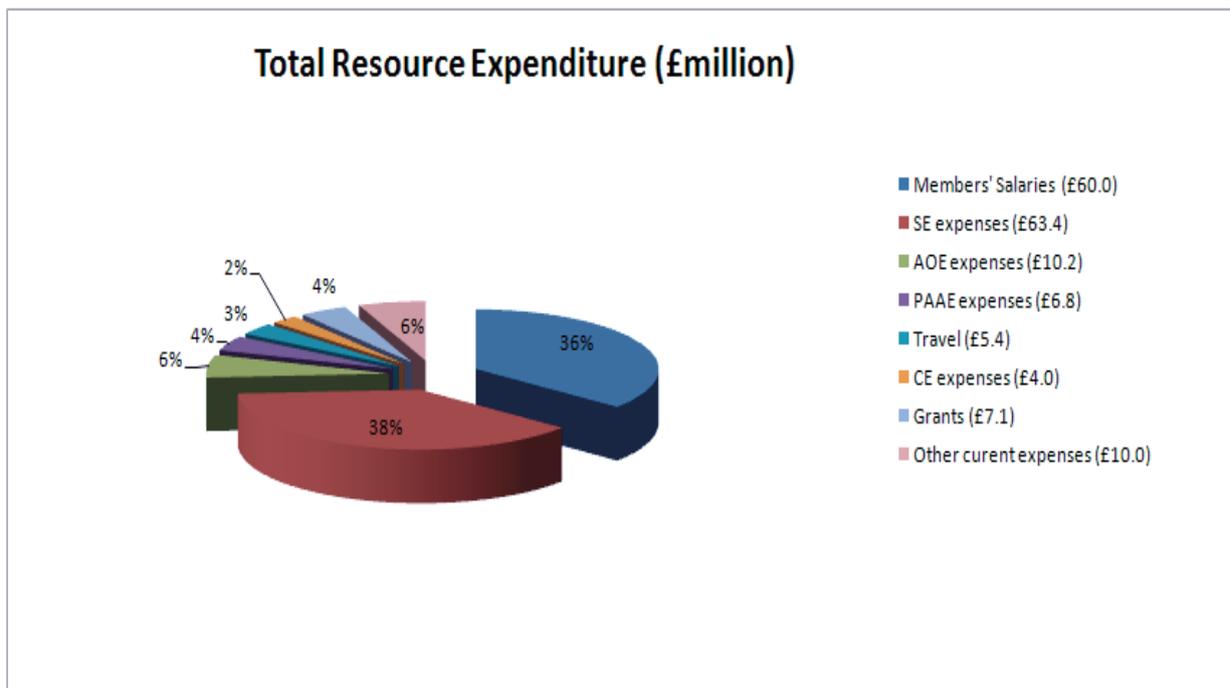
Adoption by the House of Commons of the accounting standard on retirement benefits (IAS 19) requires these accounts to recognise the surplus or deficit expected to arise from future pension commitments. As a funded scheme the PCPF liabilities shown in the Statement of Financial Position can change year on year as the long-term expected returns on scheme assets are driven by market conditions. The accounts of the PCPF are published separately and copies are available to the public at www.official-documents.gov.uk

Management Commentary

These accounts have been produced using International Financial Reporting Standards (IFRS) for the first time. Shadow 2008-09 accounts on the same basis were prepared during the summer 2009 and reviewed by the National Audit Office (NAO).

The comparative figures for 2008-09 shown in these accounts reflect expenditure included under the equivalent expenses categories that existed prior to the Green Book changes introduced on 1 April 2009. Figures published for the previous year (HC955) did not require restatement under IFRS. The audit of the 2008-09 accounts was completed within the context of a restricted scope on the regularity of Members' expenses and Short Money, rather than the full scope audit applied to the 2009-10 figures shown in these accounts.

In 2009-10 a net resource outturn of £166.9 million was achieved against an Estimate of £183.2 million. This represents an underspend of £16.3 million (8%) during the year. The outturn was £2.0 million below the £169.0 million outturn for 2008-09.



The underspend arose from a significant downturn in the amounts of expenses claimed. During 2009-10 expenditure was below planned levels for the PAAE by £5.5 million (44.8%), AOE £4.3

million (28.5%) and CE £2.4 million (40.0%). Travel expenditure was also underspent by £1.4 million (22.2%). These outturns reflect changes introduced by the Green Book, such as the restrictions on mortgage interest payments and other items announced by the former Speaker in May 2009, revised rules on claiming CE introduced by the MEC from 1 January 2010, as well as Member claiming patterns. Budgets have traditionally been based on historic expenditure trends. The overall underspend was offset in part by an increase in Members' salary related costs of £1.8 million (3%). This increase reflects the Members' pay award and changes to the rules on claiming London Supplement. Expenditure on central services, which included the cost of preparing for the publication of Members' claim receipts, fell from £2.9 million in 2008-09 to £1.8 million in 2009-10.

The actuarial review of the Parliamentary Contributory Pension Scheme (PCPF) resulted in a significant adjustment to the scheme deficit and a higher than expected increase to the pension provision recognised in the Operating Cost Statement. The deficit has risen from £142.5 million to £226.0 million, an increase of £83.5 million, over the course of the year. The change is mainly due to a decrease in the corporate bond yield that is used to derive the discount rate applied to calculate the scheme's future liabilities, increasing the value of the liabilities by £175.6 million. This is partly offset by higher than expected returns on the asset holdings during the year, contributing a gain of some £93.4 million. The increase in pension scheme deficit had an impact on the planned cost of capital charge, reducing it by £2.9 million. A further breakdown and explanation of the PCPF valuation can be found in note 15 of the Accounts.

A corresponding net cash requirement of £166.8 million against an Estimate of £179.6 million, shows a cash underspend of £12.9 million (7.0%). This primarily reflects the cash equivalent underspend on claims.

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. As noted in the Statement on the System of Internal Control (page 17), evidence to support £1.8 million of payments to Members and former Members who have been charged with criminal offences or who are under investigation by the police was not available for audit purposes, at the request of the police and Crown Prosecution Service.

Going concern

The Statement of Financial Position at 31 March 2010 shows negative Taxpayers' Equity of £235.9 million, the majority of which is made up of the PCPF liability. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the House of Commons Members' Estimate net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from income, are surrendered to the Fund.

The future financing of the liabilities recorded in the Statement of Financial Position will therefore have to be met by future grants of Supply approved annually by Parliament. Approval for those amounts required in 2010-11 has already been given. It is therefore considered appropriate to adopt a going concern basis for the preparation of the 2009-10 financial statements.

The Independent Parliamentary Standards Authority (IPSA) has taken over responsibility for the payment of Members salaries and allowances following the 2010 General Election. The House of Commons has retained a Members Estimate for 2010-11 to cover the costs of residual items including Resettlement Grant, Winding up Expenditure and pensions.

Malcolm Jack
Accounting Officer

10 December 2010

Statement of Accounting Officer's Responsibilities

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

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

During 2009-10 the limitation of audit scope which had been applied in previous years was removed and a full scope audit applied. While it remains important that Members of Parliament take responsibility for the regularity and propriety of their claims, the Accounting Officer also seeks to be satisfied that Members use of the resources claimed under the allowances is regular and proper.

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

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

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

Statement on the System of Internal Control

Scope of responsibility

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

The activities of the House of Commons are funded by two Estimates, the House of Commons Administration Estimate and the House of Commons Members Estimate. The Administration Estimate focuses on the administrative costs of running the House of Commons as an institution, covering the staff costs of the House Service, the maintenance costs of the Estate, the running costs of the Chamber and associated activities, and travel costs of Members and officers undertaking parliamentary business such as select committee work. The focus of the Members Estimate is mainly on Members of Parliament as individual elected representatives. Prior to the creation of the Independent Parliamentary Standards Authority (IPSA) in May 2010 it provided for Members' remuneration, allowances and IT equipment in support of them carrying out their work effectively. I am Accounting Officer for both Estimates and account separately to the House for each. This Statement refers to the Members Estimate.

The governance structure of the House of Commons Members Estimate differs from that of most other public sector Estimates. It is complex, has changed frequently in recent years and has often lacked clarity. The Members Estimate Committee (MEC) has been established by a standing order of the House to have responsibility for the administration of the Estimate, whereas I have responsibility for ensuring that the House's Resolutions are properly put into effect through my role as Chief Executive and Chairman of the Management Board. I am directed by the decisions of the MEC, which throughout 2009-10 was advised by the Members' Allowances Committee¹.

The purpose of the system of internal control

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

The system of internal control is designed to ensure that, in line with the Resolutions of the House and the resulting scheme of allowances set out in the Green Book, payments made under the Estimate are valid and correctly accounted for.

A system of internal control has been in place in respect of the Members Estimate for the year ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts. The system has undergone considerable change during the course of the year in response to widespread concerns about Members' expenses, and was not always fully effective. A brief commentary on the events of the past year is included in the Annual Report.

Capacity to handle risk

A system of risk management has been adopted by the Management Board, supported by a corporate risk management team, and including departmental risk registers. During the year in question the system was not fully embedded.

¹ The Members Allowance Committee is an advisory body comprised of Members of Parliament established on 22 January 2009. It replaced the previous Advisory Panel of Members' Allowances, originally set up as the Speaker's Advisory Panel in 2001. It has not been nominated in the new Parliament.

In January 2009 the House decided to introduce an entirely new Green Book, accompanied by a tighter compliance and review regime for Members' expenses overseen by an Operational Assurance Unit (OAU). Early in the financial year 2009-10, plans to introduce the OAU were well underway. The Unit was designed to improve the ability of the Department of Resources to handle risk and operate the internal controls.

The decision of the House in the wake of the expenses disclosures to establish a new, independent body to set and administer Members' expenses meant that plans to establish the OAU were abandoned. In addition, the MEC placed a number of further requirements on Members for additional information to support their claims, and the Green Book was revised in July 2009 to reflect this. A large number of additional demands were also placed upon management and staff within the Department over the year, including: assistance with reviews of Members' expenses by the Committee on Standards in Public Life ("the Kelly review") and by Sir Thomas Legg KCB QC; preparation for the release of information under the Freedom of Information Act and the transfer of services to IPSA. This increased workloads significantly, reducing the capacity of the Department to operate the internal controls to the level desired.

The risk and control framework

During 2009-10 the framework of rules governing the administration of Members' expenses, for which I was responsible, was drawn from Resolutions of the House of Commons. The MEC had oversight of the allowance system and had the authority to modify the Resolutions relating to expenditure against the Members Estimate. In response to events, a series of significant changes to the risk and control framework occurred in-year.

The scheme of allowances adopted by the House was set out in the Green Book, revised versions of which came into effect in April and July 2009. It was based on the principles that Parliament is sovereign and that Members are primarily responsible for identifying, claiming and certifying their own expenditure and the evidence which Members were required to produce to support their claims (particularly with respect to Travel Expenditure) was limited accordingly. Thus the parameters within which I was able to operate the risk and control framework were limited.

The governance arrangements for Members' expenses in 2009-10 had a number of features which further limited the extent to which I was able to exercise controls:

- The Members' Allowances Committee was responsible for advising the MEC, the Speaker and the Leader of the House, approving practice notes about allowances and determining (subject to appeal to MEC) the application of the rules in individual cases referred to them.
- The House has responsibility for regulating the conduct of its own Members. A Code of Conduct was introduced in 1995, based on the Nolan principles of public life. Enforcement of the Code is the responsibility of the Committee on Standards and Privileges, assisted by the Parliamentary Commissioner for Standards, rather than the Accounting Officer.
- A clear distinction is necessary between parliamentary and party purposes, to ensure that public money is not used inappropriately for party political ends. Adequate internal controls are in place for Short Money, which provides funding for Opposition parties' parliamentary activities, and some aspects of Members' individual expenditure (for example, shared use of constituency office space for party and parliamentary purposes). However, the Green Book does not require evidence that the distinction is fully maintained in all aspects of Members' activities, such as travel.

During 2008-09, redacted details of Members' expenses claims were being prepared for release under the Freedom of Information Act. However, in May 2009, in advance of their official publication, some details of second home claims made between 2004-05 and the first quarter of 2008-09 were disclosed in the Daily Telegraph. This was to have a profound effect on the risk and control framework. The Daily Telegraph suggested that a large number of claims were excessive or could not be described as necessary for the performance of parliamentary duties. The House suffered

severe reputational damage as a result of the disclosures. The fact that the disclosures were unauthorised also had implications for the risk and control framework.

Following a meeting of the leaders of the political parties, the then Speaker made a statement to the House. He apologised for the way the House had dealt with Members' expenses and announced a series of measures designed to improve public confidence in the House and "improve our accounts and practice" (HC Deb, 19 May 2009, column 1205):

- A package of interim reforms including the capping of mortgage interest payments, requirements for additional evidence to support claims and the introduction of a "reasonableness" test on all claims;
- The creation of an independent body to set and administer expenses. The Government subsequently introduced a bill to give effect to this proposal. Under the Parliamentary Standards Act 2009 responsibility for Members' pay and allowances passed to the Independent Parliamentary Standards Authority from 7 May 2010;
- The establishment of an independent review of past Additional Cost Allowance payments for the period 2004-5 to 2008-9. The review was conducted by Sir Thomas Legg KCB QC and his report was published in February 2010 (HC 348). Sir Thomas recommended that £1.3 million of payments over the period should be repaid. This sum was reduced on appeal to the Rt Hon Sir Paul Kennedy, to £1.1 million. As of 18 November 2010, £13,602 owed by former Members remained outstanding. Arrangements are in place for repayment of this balance. Sir Thomas's findings are discussed further in the section on significant internal control issues below.

In November 2009 the Kelly Review was published. It made recommendations for the future system to be administered by IPSA, such as ending support for mortgage interest. It also drew attention to "the weakness of the House of Commons administration in policing the system". and made a number of observations with respect to expenses for additional accommodation, including the generosity of the maximum amount that could be claimed and the fact that this was set by Members themselves; the fact that some Members appeared to have regarded additional accommodation expenses as an addition to salary to which they were entitled rather than simply to cover costs necessarily incurred as a result of staying away from home; and the failure to draw a clear distinction between what was necessary and "what may be desirable but is excessive when paid for out of public funds".

In January 2009 the House had agreed that I should invite the National Audit Office (NAO) to undertake a full scope audit of the Members Estimate for the first time, including an opinion on the regularity of expenditure. In June 2009 I agreed with the Comptroller and Auditor General that the NAO would carry out a full scope audit in 2009-10.

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 is informed by the advice of the internal auditors and the executive managers within the Department of Resources who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. Given the number of other activities taking place within the Department, the work of the Legg inquiry and the ongoing work of the NAO spread across the year, it was agreed on management advice that separate internal audit scrutiny of the allowances system would be excessive and not add value.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Members Estimate Audit Committee. Actions taken to address weaknesses and ensure continuous improvement of the system are detailed in the sections below. First, I shall turn my attention to the three areas in respect of which the Comptroller and Auditor General's opinion on the regularity of the Members Estimate Resource Accounts is qualified.

(i) Full evidence in accordance with the Green Book not held

The Comptroller and Auditor General qualifies his opinion on regularity in respect £0.8 million of payments where the requirements of the Green Book for supporting documentation were not met in full.

A review of a small sample of claims submitted between April and July 2008, assessed against the criteria that could be expected to apply under a full-scope audit, had been undertaken by the NAO in 2008-09. The testing suggested an improved level of supporting information was being supplied with Members' claims. However, during the exercise the NAO identified a small number of financial errors without establishing their level of prevalence. The subsequent, much higher volumes of testing conducted by the NAO under the full-scope audit early in 2009-10 identified significant weaknesses in the evidence available to support the validity of payments made. This was consistent with Sir Thomas Legg's subsequent finding in February 2010 that of the £55 million paid to Members in respect of accommodation costs during the period 2004-05 to 2008-09, 17% required validating by supporting evidence that should have been provided at the time.

The NAO's findings were brought to my attention and, in response, I instigated a major project to establish the extent of this issue, review the validity of the supporting evidence for all material items of expenditure and ensure that sufficient evidence was obtained, albeit after the year end, to support payments that had been made in 2009-10. I put in place a senior manager to take charge of this project with a direct reporting line to me. The work was carried out by the internal Quality Assurance team, augmented by auditors supplied by a contractor. The NAO was invited to review the project team's work. Over the winter, the Department of Resources tightened the controls in place with the aim of preventing further mortgage and rent payments being made if any of the necessary supporting documents were not provided.

The result of the project was that the vast majority of payments in the areas concerned were fully supported by evidence by the end of the audit. The position before and after this work is shown in the table below.

Value of payments not fully supported: mortgage interest, rent and staff salaries:

	Total value of payments in 2009-10	Payments where documents missing at 31 December 2009	Payments where documents missing at conclusion of audit
	£000	£000	£000
Mortgage interest and home and office rent	7,282	2,871	372
Staff salaries	63,424	5,011	459
Total	70,706	7,882	831

The Members Estimate Committee agreed a series of high level tests to be applied to those payments where evidence remained missing at the end of the audit in order to establish whether the payment should be considered a debt that was recoverable. The tests were not intended to establish beyond all doubt that payments were correctly made. Rather, they were intended to identify payments which were more likely than not to have been incorrect and should therefore be recovered unless evidence to the contrary had been provided.

The general principle adopted was that the House would seek to recover monies from Members where supporting evidence had not been provided as required under the Green Book, and there was either:

- Direct evidence that an incorrect payment may have been made; or
- No alternative evidence in support of the existence and/or accuracy of the underlying transaction.

The Members Estimate Committee has published the detailed criteria used to establish whether a debt existed at <http://www.parliament.uk/business/committees/committees-a-z/other-committees/members-estimate/news/allowance-repayments/>. Using these criteria, a total of £33,794 was identified. Of this sum, £17,612 applies to former Members. This sum has been written off owing to the limited prospects of recovery, leaving £16,181 to be recovered.

Recovery of payments inadequately supported by evidence:

	Receivables amount	Write off value	To be recovered
	£000	£000	£000
Mortgage interest	11	4	7
Home rentals	2	-	2
Office leases	16	9	7
Staff contracts	5	5	-
Total	34	18	16

(ii) External investigations: evidence to support payments not available

During the period when the audit was being carried out, a number of MPs and former MPs were being investigated by the police or had charges brought against them by the Crown Prosecution Service. At the request of the police and the CPS, any evidence to support payments to these Members was not available for audit purposes and the Comptroller and Auditor General was therefore unable to reach an opinion on the regularity of those payments, which totalled £1.8 million. This sum relates to the total expenses paid over the whole year to the Members concerned, rather than just claims which were the subject of investigation.

iii) Green Book rules regarded as insufficient

The framework in place at the beginning of the year was based, as noted earlier, on the principle that Members were primarily responsible for identifying, claiming and certifying their own expenditure, although the emphasis of the framework was altered significantly by the requirement for further sources of evidence and other changes announced in May 2009. Following these changes, which were reflected in a revised version of the Green Book in July 2009, the rules for some allowances were consistent with the evidential requirements of full scope audit. However, for other allowances, such as travel expenditure, the arrangement that Members were primarily responsible for certifying their own expenditure continued. This meant that the level of assurance required by the Green Book has not been sufficient to satisfy the NAO, with the result that the Comptroller and Auditor General has treated such expenditure as unsupported.

The C&AG's audit opinion makes clear that in administering the Green Book, I am responsible for ensuring that the Resolutions of the House are properly put into effect and, with regard to the £11.3 million of expenditure, the C&AG states in his report that the evidence requirements of the Green Book have been met. Furthermore, in respect of Communications Expenditure, a high proportion of leaflets and newsletters were vetted by officials. Many were rejected or modified as a result; and a proportion of websites were monitored and challenged.

Other internal control issues

Changes to the allowances system which came into effect at the beginning of the financial year, accompanied by a revised Green Book, placed more emphasis on guiding principles and less on

detailed rules. The place at which the balance between these two approaches was struck within a complex system inevitably had consequences for the system of internal control. For example, the new Green Book contained no definition of the main home for allowance purposes. However, the Speaker's Statement of 19 May 2009 introduced further changes early in the financial year, in response to the leak of claims details to the press. These significantly reduced the scope of the second homes allowance, PAAE, with the effect that the Department of Resources had a stronger mandate to apply a clear and relatively straightforward set of rules for that part of the allowances system. All claims were subject to an overriding test of reasonableness.

The Legg review concluded that although most of the individual Additional Costs Allowance payments made to Members during 2004-05 to 2008-09 "appear in fact to have been valid", some payments breached specific Green Book rules or what Legg referred to as "the vital requirement of propriety" (paragraph 74). It is likely that these elements were still present at the beginning of 2009-10 to some extent. However, this risk was mitigated by the following actions:

- The May 2009 rule changes drastically limited the scope of what could be claimed under PAAE; and
- The project to review the adequacy of the evidence held assessed the validity of all claims for mortgage interest and home and office rent.

In preparation for the publication of Members' expenses claims under the Freedom of Information Act, Members' claim forms and associated documents were scanned under tight security arrangements by a private contractor. Nevertheless, at some point during the scanning process, a serious breach of information security occurred, leading ultimately to the unauthorised disclosure of much of this data in the Daily Telegraph during May 2009.

I launched an investigation into the causes of the unauthorised disclosures. The investigation concluded that data security procedures and practices in use by the House of Commons Administration were not the cause of the data loss. Equally, the procedures used by the private contractor employed by the House during the redaction of personal data from the detail of Members' expenses were not the direct cause of that loss. It was virtually certain, though, that the data was misused during the redaction process by one or more individuals who were not employed by the House but whose duties gave them the opportunity of access to the data.

The response of the Department of Resources to increased information risk was to bring all further scanning operations in-house. Additional measures in place to safeguard personal and confidential data included restrictions on the use of temporary and agency staff in sensitive areas (although this frequently made it harder for the Department to carry out the full range of its duties) and the introduction in 2008 of a system of Departmental Information Risk Owners and a Senior Information Risk Owner at board level. A programme to tighten data security is underway, including the introduction of a system of protective marking.

In September 2010 a former employee of the Department of Resources was convicted on three charges of obtaining money transfers from the allowance allocation of three former Members by deception in 2005. Extensive checking of other transactions carried out by the employee revealed no other suspect transactions.

Conclusion

This has been a challenging year, and the reputation of the House was badly damaged by the extensive revelations about the way the expenses system operated.

Responsibility for MPs' expenses was transferred to IPSA on 7 May 2010, the day after the General Election, although the House retains responsibility for Short Money and some other items which fall under the Members Estimate. The House worked with IPSA to ensure that the transition was as smooth as possible, agreeing to pay Members' staff salaries on IPSA's behalf for the remainder of May. This sum has been refunded to the House. Work has also been carried out to reduce the risk that items might be claimed from both allowance systems.

Major changes to the existing system of allowances were announced in May 2009, in response to public outrage following the revelations. It would have been desirable for the Member committees concerned to have considerably tightened the evidence requirements of the Green Book at an earlier stage and for the implications of the rule changes to have been reflected more quickly in the House's internal control processes,

The move to a "full scope" audit of the Members Estimate has provided me with a much greater degree of assurance that payments made under the Green Book were properly made. The initial work on the 2009-10 audit by the NAO, in the summer and autumn of 2009, identified problems with the system of internal control. Again, these problems were not rectified as quickly as I would have liked. However, with the agreement of the Members Estimate Committee, they were addressed successfully over the following months. In December 2009 a major project was established to identify the extent of the shortfall in evidence to support payments. Where overpayments were identified as a result of this work, repayment was sought. At the same time, a strict policy was introduced of withholding payments if full documentation was not provided at the time of new claims. Finally, when the extent of the shortfall had been established in March 2010, the project moved on to collection of the missing documents. The shortfall was reduced in value from £7.9 million to £0.8 million, a reduction of 90%.

Thus, although there were shortcomings with system of internal control at the beginning of the financial year, the result of the actions taken was a substantial improvement by the time the audit had been concluded.

Malcolm Jack
Accounting Officer

10 December 2010

Independent Auditor's report to the House of Commons

I have audited the financial statements of the House of Commons: Members for the year ended 31 March 2010. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement, the Statement of Financial Position, the Statement of Cashflows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the House's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the House; and the overall presentation of the financial statements.

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

Qualified opinion on regularity

The financial statements record expenditure of £98.1 million relating to the re-imbusement of costs incurred by Members. Included within this amount is:

- (i) £0.8 million where evidence had not been obtained by the House authorities in accordance with the framework of rules governing the administration of Members' Expenses; and
- (ii) £1.8 million where evidence with regard to certain MPs' expenses, was held by the police for investigation and was not, therefore, available for audit purposes;

In addition, for £11.3 million of costs re-imbursed to Members, the evidence obtained by the House authorities, although in accordance with the framework of rules governing the administration of Members' Expenses, was not sufficient to confirm that it had been incurred for Parliamentary purposes.

In my opinion, except for £13.9 million of expenditure on Members' allowances that was either unsupported or where entitlement could not be fully demonstrated, in all material respects the income and expenditure have been applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the House's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, changes in Taxpayers' Equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the House of Commons' Financial Reporting Manual.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

In respect of the lack of evidence to support entitlement for payment of £13.9 million of Members' allowances:

- I have not obtained all the information and explanations that I consider necessary for the purpose of my audit; and
- proper accounting records have not been maintained.

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

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

Report

My report on pages 26 to 29 provides further detail of my qualified audit opinion on regularity and on matters arising from my audit of the Accounts.

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

14 December 2010

Report

Introduction

1. The House of Commons: Members Resource Accounts for 2009-10 report net operating costs of £166.9 million. This includes expenditure on the re-imbusement of costs incurred by Members of Parliament of £98.1 million. The financial statements also report Members' salaries of £47.4 million, contributions to Members' pensions of £12.6 million and a liability of £226.0 million on the Parliamentary Contributory Pension Fund.

The purpose of my report

2. This report explains the basis for the qualification of my audit opinion on the 2009-10 Resource Accounts. It also explains the steps taken by the House of Commons to strengthen internal controls and to obtain the documentary evidence necessary to support the payments made to Members. As required by the Resolution of the House dated 22 January 2009, my audit was undertaken on a 'full scope' basis for the first time.

Framework of authorities

3. The Members Estimate remunerates and supports Members of the House of Commons in discharging their responsibilities, in the constituency, in Parliament and elsewhere by funding the:

- payment of Parliamentary salaries and associated pension contributions;
- reimbursement of certain expenses incurred by members (including travel, office costs, staff and equipment);
- payment for insurance;
- central provision of IT equipment; and
- provision for training for Members and their staff.

4. The rules and principles governing the re-imbusement of Members' expenses are set out in Resolutions approved by the House. These set out the purpose of the individual allowances and contain criteria for judging the appropriateness of a claim. The Members Estimate Committee has the power to modify the provisions of the Resolutions, which are brought together and explained in the Green Book. This, in turn, explains the principles and rules for claiming expenses.

5. The Clerk of the House has been appointed by the Speaker as Accounting Officer for the Members Estimate. He is advised by the Members Estimate Committee and is accountable to the House. The explanation of Accounting Officer's responsibilities within the House of Commons: Members Main Supply Estimate for the year explains his responsibilities for the propriety and regularity of the public finances for which he is responsible, for keeping proper records and safeguarding assets, and for the proper presentation of the Resource Accounts and their transmission to the Comptroller and Auditor General.

My obligations as Auditor

6. There are no statutory provisions regarding the preparation and audit of the Members Resource Accounts. My audit is, therefore, undertaken by agreement with the House. I am required under International Standards on Auditing (UK and Ireland), to obtain evidence to give reasonable assurance that the financial statements are free from material misstatement.

7. In forming my opinion, I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed. I am also required to satisfy myself that, in all material respects, the expenditure and income shown in the financial

statements have been applied to the purposes intended by Parliament and conform to the authorities that govern them.

The scope of my audit

8. My audit of the 2008-09 Members Resource Accounts was restricted to the extent that my testing considered:

- (i) whether expenditure was supported by Members' claims;
- (ii) whether the purpose of the expenditure stated on the claims met that of the relevant allowance; and
- (iii) whether the House of Commons Service had properly accounted for these claims.

9. My work was, therefore, limited by the guiding principle that Members are primarily responsible for identifying, claiming and certifying their own expenditure. The scope of my audit did not, therefore, require me to seek evidence that eligible expenditure had actually been incurred for the purposes stated in the claim.

10. In January 2009, the House accepted a recommendation from the Members Estimate Committee that the scope of my audit engagement should move to an unrestricted basis from 1 April 2009. The main impact of expanding the scope is that I am now required to look beyond the Member's signature in assessing the regularity of claims. I have, therefore, carried out additional work to test the evidence that is available under the framework of rules governing allowances. The extended scope also puts my work on a basis that is consistent with the audit that is applied to other bodies in receipt of public funds.

Audit Opinion

11. I have limited the scope of my regularity opinion because the evidence available was incomplete, and so not sufficient to support an unqualified opinion, in three respects:

- where evidence had not been obtained in accordance with the framework of rules approved by the House authorities that govern the administration of Members' Expenses (see paragraphs 13 to 19 of this Report);
- where evidence with regard to certain MPs was either being investigated by the police or pursued by the Crown Prosecution Service and was not, therefore, available for audit purposes (see paragraph 20 of this Report); and
- where evidence obtained, although in accordance with the framework of rules approved by the House authorities, was not sufficient to confirm that expenditure on Members' Expenses had been incurred for Parliamentary purposes (see paragraphs 21 to 23 of this Report);

12. The scope of my regularity opinion on the prior-year comparatives is also limited on the grounds that my audit of the 2008-09 Resource Accounts was carried out on a restricted scope basis. I did not, therefore, seek to obtain the evidence necessary to allow me to confirm, in accordance with the requirements of a full scope audit, the regularity of expenditure on Members' allowances in 2008-09.

Administration of MPs' Allowances

13. In May 2009 there was a large amount of information published in the media concerning the MPs' expenses scheme, including scanned images of Members' claims. The public concern caused by the release of this data resulted in the House making a number of changes to the scheme. There were also a number of investigations carried out by the House authorities that highlighted inappropriate practice by some Members as well as payments that had not been validated by supporting evidence. In response to these developments, a number of changes were made to the allowances system, including the setting up of

a new body, the Independent Parliamentary Standards Authority (IPSA) to regulate and administer Members' allowances.

14. Following the decision by the House to remove restrictions on the scope of my audit, I carried out initial sample testing of payments made to Members in the period April to July 2009. This sample work identified that one in four payments during the period under investigation did not have the level of evidence required by the Green Book. My findings, as explained in the Annual Report accompanying the Members Resource Accounts, were consistent with those of Sir Thomas Legg, whose Report, dated 4 February 2010, set out the results of his review of all Additional Cost Allowance claims made by Members between 2004-05 and 2007-08 (except those Members that had since died).

15. In response to these findings, the Accounting Officer, with the support of the Members Estimate Committee, instigated a major project to establish the extent to which payments were unsupported and, where this was the case, seek to obtain the evidence needed to support payments that had been made in 2009-10. As explained in the Statement on Internal Control, an internal team, supplemented by external contractors and with a direct reporting channel to the Accounting Officer, undertook an extensive programme of work to retrospectively gather the required evidence. This remedial work began in December 2009 and continued throughout the summer and up until 25 October 2010 when the Members Estimate Committee directed the House of Commons Service to stop.

16. The remedial work covered four categories of Allowance. These are shown in the following table, along with an estimate of the extent to which following the remedial work, payments remain unsupported.

Allowance (See note 8 to the Resource Accounts)	Account figure £ million	Unsupported £ million
MPs' staff (staffing expenditure)	63.42	0.46
Home rentals and mortgage interest (part of Personal and Additional Accommodation Expenditure - PAAE) and Office rentals (part of Administrative and Office Expenditure - AOE)	7.28	0.37
Totals	70.70	0.83

17. Where expenditure reported in the Resource Accounts is not supported by the documentation requirements of the Green Book, there is insufficient evidence available for me to confirm that payments have been made in accordance with the rules governing Members' expenses.

18. In response to my audit findings, the Members Estimate Committee agreed that the House should seek to recover monies from Members where supporting evidence had not been provided, as required by the Green Book, **and** there is either (i) direct evidence that an incorrect payment may have been made; or (ii) there is no alternative evidence to support the existence and accuracy of the underlying transaction. Claims made by members under investigation by the police would not be tested in this way, on the grounds it would not be appropriate to make any decisions on the regularity of such payments before legal proceedings have concluded.

19. In taking forward this work, the House Service has concluded that, out of the £0.8 million where I have limited the scope of my opinion, there are £33,794 of payments that meet the MEC criteria and where recovery action should be initiated. This amount is, therefore, recognised as a receivable at the year-end, subject to payments of £17,612 to former Members where management consider that recovery action is unlikely to be successful. Note 12 and Note 18 to the Accounts provide further detail.

External Investigations

20. Following concerns identified by the House and others, including the Standards and Privileges Committee, the expense claims of a number of MPs have been investigated by the police, and in some cases are being pursued by the Crown Prosecution Service. This has resulted in a further limitation of scope in my work because evidence with regard to these MPs' claims was not available for audit purposes. Expenditure of £1.8 million that was paid to these MPs in 2009-10 could not, therefore, be audited.

Evidence requirements of the Green Book

21. As explained in paragraph 4 of this Report, the framework of rules governing the administration of Members' expenses is drawn from Resolutions that are debated and approved by the House of Commons. The resulting scheme is set out in the Green Book and it is the responsibility of the Accounting Officer to apply these rules in administering the scheme.

22. There are a number of areas where I have found the evidence requirements of the Green Book do not provide sufficient evidence for me to form an opinion on the regularity of expenditure under my 'full scope' audit. In the majority of these cases, the Green Book only requires an MP's signature as evidence that expenditure was incurred for Parliamentary purposes. In other cases, although supporting documentation is required by the Green Book, I do not consider this evidence sufficient to confirm the regularity of expenditure.

23. I have, therefore, limited the scope of my regularity opinion with regard to £11.3 million of costs reimbursed to Members, comprising travel costs of £4.7 million; communications costs of £3.8 million; and other costs of £2.8 million, including overnight subsistence and telephone calls. In limiting the scope of my regularity opinion with regard to this expenditure, there are two important points to note:

- (i) MPs are individually accountable for their expense claims and for their decisions and actions in approving and claiming these allowances. This reliance on MPs' self-certification of claims is clearly set out in the Green Book.
- (ii) In administering the Green Book, the Accounting Officer is responsible for ensuring that the Resolutions of the House are properly put into effect and, with regard to the £11.3 million of expenditure, I am satisfied the evidence requirements of the Green Book have been met. However, in applying the professional standards that underpin my audit, in my opinion, these requirements are not sufficient to allow me to confirm that expenditure has been incurred for Parliamentary purposes. This lack of evidence does not necessarily imply that expenditure was paid incorrectly.

Going Forward

24. Since the May 2010 General Election, responsibility for the payment of Members' salaries and expenses has transferred to the Independent Parliamentary Standards Authority (IPSA). This new Authority will prepare Annual Accounts in accordance with the Parliamentary Standards Act 2009, which also provides a statutory basis for my audit of those Accounts.

25. There will be a Members Estimate Resource Account in 2010-11, but this will not include the salaries and expenses of Members returned at the General Election.

26. I shall continue to work closely with the House of Commons as they seek to resolve the significant issues that have arisen with regard to the Members' Expenses Scheme and have resulted in the qualification of my opinion on the 2009-10 Resource Accounts.

Statement of Parliamentary Supply

Summary of Resource Outturn

for the year ended 31 March 2010

Request for Resources	Estimate			Outturn			Net Total Outturn compared with Estimate: saving/(excess) ⁱ	2008-09
	Salaries & other costs	Grants	Net Total	Salaries & other costs	Grants	Net Total		Outturn
	£000	£000	£000	£000	£000	£000		£000
Members' salaries	175,744	7,456	183,200	159,793	7,147	166,940	16,260	168,955
Allowances and Other costs								
Total resources	175,744	7,456	183,200	159,793	7,147	166,940	16,260	168,955
Non-operating cost A in A	(1)	-	(1)	-	-	-	(1)	(1)

Net cash requirement 2009-10

	Note	Estimate	Outturn	Net Total Outturn compared with Estimate: saving/(excess) ¹	2008-09 Outturn
		£000	£000	£000	£000
		Net cash requirement	4	179,640	166,787

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

	Note	Forecast 2009-10		Outturn 2009-10	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Total income payable to the Consolidated Fund (cash receipts being shown in italics)	5	-	-	(1,646)	(1,610)

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

Operating Cost Statement

for the year ended 31 March 2010

	Note	2009-10		2008-09
		Salary & related costs £000	Other Costs £000	Income £000
Programme Costs				
Members' salaries, allowances and other costs				
Members' salaries	7	47,385		45,802
Members' pensions	7	12,625		12,455
Other costs	8		99,783	103,464
Grants to other bodies	8		7,147	7,234
Totals		60,010	106,930	-
Net Operating Cost				166,940
				168,955

The Notes on pages 35 to 47 form part of these Resource Accounts.

Statement of Financial Position

as at 31 March 2010

		2009-10	2008-09	2007-08
	Note	£000	£000	£000
Non-current assets:				
Property, plant and equipment	9	167	564	1,255
Intangible assets	10	-	-	-
Total non-current assets		167	564	1,255
Current assets:				
Trade and other receivables	12	217	344	680
Cash and cash equivalents	13	577	299	256
Total current assets		794	643	936
Total Assets		961	1,207	2,191
Current liabilities				
Trade and other payables	14	(10,874)	(12,183)	(11,400)
Other current liabilities		-	-	-
Total current liabilities		(10,874)	(12,183)	(11,400)
Total assets less net current liabilities		(9,913)	(10,976)	(9,209)
Non-current liabilities				
Provisions for pension liability	15	(225,963)	(142,488)	(97,943)
Total non-current liabilities		(225,963)	(142,488)	(97,943)
Assets less liabilities		(235,876)	(153,464)	(107,152)
Taxpayers' equity:				
General Fund		(235,876)	(153,464)	(107,152)
Total taxpayers' equity		(235,876)	(153,464)	(107,152)

Malcolm Jack
Accounting Officer

10 December 2010

The Notes on pages 35 to 47 form part of these Resource Accounts.

Statement of Cash Flows

for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Cash flows from operating activities			
Net operating cost	7,8	(166,940)	(168,955)
Adjustments for non-cash transactions	8	1,704	1,448
(Increase)/Decrease in trade and other receivables	12	92	336
Less movements in receivables relating to items not passing through the OCS		36	
Increase/(Decrease) in trade payables	14	(1,309)	740
Less movements in payables not passing through the OCS		(314)	
Net cash outflow from operating activities		(166,731)	(166,431)
Cash flows from investing activities			
Purchase of equipment	9	(56)	(19)
Purchase of intangible assets	10	-	-
Proceeds of disposal of equipment	6, 9	-	1
Net cash outflow from investing activities		(56)	(18)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		166,700	166,448
From Consolidated Fund (Supply) – prior year		-	-
Net Financing		166,700	166,448
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(87)	(1)
Receipts due to the Consolidated Fund		1,610	119
Payments of amounts due to the Consolidated Fund		(1,245)	(75)
		365	44
Net increase/(decrease) in cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		278	43
Cash and cash equivalents at the beginning of the period		299	256
Cash and cash equivalents at the end of the period		577	299

The Notes on pages 35 to 47 form part of these Resource Accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

	Note	General Fund £000
Balance at 31 March 2008		(107,152)
Changes in taxpayers' equity for 2008-09		
Net gain/(loss) on pension liabilities due to changes in actuarial assumptions	15	(39,300)
Non-cash charges – cost of capital	8	(4,561)
Non-cash charges – auditor's remuneration	8	55
Net operating cost for the year		(168,955)
Total recognised income and expense for 2008-09		(212,761)
Net Parliamentary Funding – drawn down		166,448
Net Parliamentary Funding - deemed		255
Supply payable/(receivable)		(254)
Balance at 31 March 2009		(153,464)
Changes in taxpayers' equity for 2009-10		
Net gain/(loss) on pension liabilities due to changes in actuarial assumptions	15	(75,800)
Non-cash charges – cost of capital	8	(6,813)
Non-cash charges – auditor's remuneration	8	354
Net operating cost for the year		(166,940)
Total recognised income and expense for 2009-10		(249,199)
Net Parliamentary Funding – draw down		166,700
Net Parliamentary Funding – deemed		254
Supply payable/(receivable)		(167)
Balance at 31 March 2010		(235,876)

The Notes on pages 35 to 47 form part of these Resource Accounts.

Notes to the Resource Accounts

1. Statement of accounting policies

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

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

The policies of procedure adopted for managing Members' expense claims during 2009-10 are further explained in the Statement on the System of Internal Control.

1.1 Accounting convention

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

1.2 IT equipment

IT equipment that is attributable to specific workstations is grouped and capitalised. Depreciation is charged on a straight line basis and is calculated at rates sufficient to write off the value of tangible fixed assets by equal instalments over their estimated useful lives.

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

1.3 Intangible fixed assets

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

1.4 Investments

There are no short term current investments.

1.5 Inventories

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

1.6 Research and development

There is no research and development activity.

1.7 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. Repayments in relation to the Legg Review of past ACA payments are treated as Consolidated Fund Extra Receipts. Receipts of insurance payments for lost or damaged computer equipment are surrendered to the Consolidated Fund.

1.8 Capital charge

A charge, reflecting the cost of capital utilised by the House of Commons, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for cash balances with the Office of the Paymaster General and Consolidated Fund Extra Receipts (CFERs) which are exempt from the charge. There is negative capital charge to the accounts in 2009-10 because the net liabilities exceed the value of the assets.

The adoption of the cost of capital charge will cease from 2010-11.

1.9 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 2009-10.

1.10 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 House of Commons Members Estimate. It recognises the present value of accrued liabilities based on an annual actuarial valuation conducted by the Government Actuaries Department. The assessment as at 31 March 2010 is based on full membership data for the scheme as at 31 March 2008 rolled forward to estimate the liability on 31 March 2010. This is compared with the market value of the scheme's assets on 31 March 2010 to assess the deficit position at that date.

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 or www.official-documents.gov.uk.

1.11 Staff Pensions

Members' employees automatically join the Portcullis Pension Plan, although they can opt out if they wish. All employees within the Plan benefit from a contribution paid by the House of 10% of their earnings. The contribution is recognised in operating costs. (See note 8)

1.12 Grants payable

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

1.13 Leases

No operating or finance leases are held.

1.14 Service Concessions (PPP/PFI)

There were no PFI transactions during the year.

1.15 Value added tax

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

1.16 Programme expenditure

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

Prepayments are disclosed for the PCPF, childcare and the purchase of season tickets where the services will be delivered in the next accounting period.

1.17 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.

The scope of the House of Commons Members Estimate will change for 2011-12 following the transfer of responsibility for payment of Member salaries and expenses to the Independent Parliamentary Standards Authority.

1.18 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.

1.19 Third party assets

There are no third party assets held.

2. First-time adoption of IFRS

The first-time adoption of IFRS did not require a restatement of the 2008-09 accounts.

3. Reconciliation of accounts to capital budget

	Note	2009-10		Outturn compared with final provision	2008-09
		Estimate	Outturn		Outturn
		£000	£000	£000	£000
Additions to assets	9, 10	100	56	44	19
Appropriations in Aid	9, 10	1	-	1	-
Capital Budget		101	56	45	19

4. Reconciliation of net resource outturn to net cash requirement

		Estimate	Outturn	Net total outturn compared with Estimate: saving/(excess)
	Note	£000	£000	£000
Resource Outturn		183,200	166,940	16,260
Capital				
Acquisition of property, plant & equipment	9, 10	101	56	45
Non operating A in A				
Proceeds of asset disposals	6	(1)	-	(1)
Accruals adjustments				
Non-cash items	8	(3,660)	(1,704)	(1,956)
Changes in working capital other than cash	12, 14	-	1,495	(1,495)
Net Cash Requirement		179,640	166,787	12,853

5. Analysis of income payable to the Consolidated Fund

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

	Outturn 2009-10	
	Income	Receipts
	£000	£000
Other amounts collectable on behalf of the Consolidated Fund		
Non-operating income and receipts ¹	-	(1,610)
Excess cash to be surrendered to the Consolidated Fund	(1,646)	-
Total income payable to the Consolidated Fund	(1,646)	(1,610)

1. Receipts due to the Consolidated Fund	£000	£000
Recoveries in relation to the Legg Review of past ACA payments	1,160	
Voluntary repayments in relation to the Legg Review of past ACA payments	155	
		1,315
Voluntary repayments unrelated to the Legg Review of Past ACA payments		224
Other CFERs		71
Total		1,610

6. Non-Operating income – disposal of non current assets

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Proceeds on disposal of property, plant & equipment	-	1

7. Members' costs**7.1 Members costs comprise:**

		<u>2009-10</u>	<u>2008-09</u>
	<u>Note</u>	<u>£000</u>	<u>£000</u>
Members' salaries		42,340	41,465
Resettlement Grant		-	-
London Supplement		681	154
Social security costs		4,364	4,183
Other pension costs	15	12,625	12,455
Total net costs		<u>60,010</u>	<u>58,257</u>

There were 646 seats in the House of Commons. During 2009-10, a total of 641 Members took up their seats with 5 Members abstaining from taking the oath. The annual salary of each Member was £64,766 from 1 April 2009. Included in the Members' salary costs are the additional salaries for the Chairman of Ways and Means (£41,371), two Deputy Chairmen of Ways and Means (£36,360 each), thirty two Chairmen of the Select Committees (£14,366 each) and the thirty eight Chairmen of the Standing Committees (£2,867 - £14,366 each).

The scope of the London Supplement was broadened on 1 April 2009. This has led to the four-fold increase in expenditure shown over the previous year.

7.2 The House of Commons Members Fund (HCMF)

The HCMF was set up by the House of Commons Members' Fund Act 1939 as amended by subsequent Acts between 1948 and 1991. The Fund is not a pension scheme as defined by the House of Commons Financial Reporting Manual but functions primarily as a benevolent fund and operates to provide for former Members and their dependants who find themselves in difficult circumstances. These accounts only show the contribution paid into HCMF each year on behalf of all Members. Separate accounts for the HCMF are published and can be viewed at www.publications.parliament.uk/pa/cm/cmmemfun.htm. 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.

The Trustees have determined that actuarial reports will be commissioned every 5 years. The next actuarial report will be at 30 September 2011.

8. Programme costs

	Note	2009-10		2008-09	
		£000	£000	£000	£000
Other Costs – Members' Staff Salaries, Staff Pensions and other expenses					
Cash Items					
Staffing Expenditure		63,424		59,962	
Administrative and Office Expenditure		10,162		11,333	
Personal and Additional Accommodation Expenditure		6,796		10,684	
Communications Expenditure		3,998		5,126	
Travel Expenditure		5,367		5,985	
Contributions to Members' staff pensions		5,682		5,259	
Winding Up Allowance		134		132	
Central service provision ¹		1,819		2,873	
Staff redundancy		33		33	
Insurance		188		172	
Temporary secretarial assistance		476		457	
			98,079		102,016
Grants to other bodies					
Financial assistance to Opposition parties		6,883		6,981	
Members' Fund		215		215	
Other		49		38	
Subtotal			7,147		7,234
Non-cash items					
Depreciation and amortisation of fixed assets:					
Property, plant & equipment	9	453		710	
Provision for bad and doubtful debt		35		-	
Gain/(loss) on disposal of fixed assets		-		(1)	
Pension provision	15	7,675		5,245	
Audit fee ²		354		55	
Capital charge		(6,813)		(4,561)	
Subtotal			1,704		1,448
Grand Total			106,930		110,698

¹ The Central Service Provision includes expenditure in relation to disability assistance (£0.3 million), training (£0.3 million), current IT expenditure (£0.6 million) and central management (£0.4 million).

² Auditors have received no remuneration for non-audit work.

9. Property, plant and equipment

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

	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Cost or valuation			
At 1 April	3,142	3,124	3,073
Additions	56	19	51
Disposals		(1)	
At 31 March	<u>3,198</u>	<u>3,142</u>	<u>3,124</u>
Depreciation			
At 1 April	2,578	1,869	1,155
Charge in year	453	710	714
Disposals		(1)	
At 31 March	<u>3,031</u>	<u>2,578</u>	<u>1,869</u>
Net book value at 31 March	167	564	1,255

10. Intangible Non-current assets

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

	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Cost or valuation			
At 1 April	20	20	65
Additions	-	-	-
Disposals	(20)	-	(45)
At 31 March	<u>-</u>	<u>20</u>	<u>20</u>
Amortisation			
At 1 April	20	20	60
Charged in year	-	-	5
Disposals	(20)	-	(45)
At 31 March	<u>-</u>	<u>20</u>	<u>20</u>
Net book value at 31 March	-	-	-

11. 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 a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the House's expected purchase and usage requirements and the House is therefore exposed too little credit, liquidity or market risk.

12. Trade receivables and other current assets

	As at 31 March 2010	As at 31 March 2009	As at 31 March 2008
	£000	£000	£000
Amounts falling due within one year:			
Members ¹	117	24	35
Deposits and advances	31	57	39
Other receivables	60	124	458
Prepayments and accrued income	44	139	148
Provision for doubtful debt ²	(35)	-	-
	217	344	680

¹The Members trade receivables figure represents the amount due as at 31 March 2010 and includes:-

	£000	£000
	Outstanding at 31 March 2010	Subsequently repaid or entered into a contract to repay at the date of finalised Accounts
Standards and Privileges Committee case amounts outstanding at 31 March 2010 ³	15	2
Amounts due in relation to the Legg Review of past ACA payments: Current Members	34	34
Amounts due in relation to the Legg Review of past ACA payments: Former Members ⁴	52	16
Amounts to be recovered from current Members where payments were made with inadequate supporting evidence. Note 18 gives details of a further amount from former Members that has been written off.	16	-
Total	117	52

²The provision for doubtful debt represents recoveries sought from former Members in relation to the Legg Review of ACA payments.

³During the year the Parliamentary Commissioner for Standards investigated a number of complaints about Members of Parliament. As a result the Standards and Privileges Committee recommended that the House should recover a number of payments. The total recommendation as at 31 March 2010 was £109,359 of which £93,000 has been subsequently repaid. £14,859 has been recognised as a debtor and represents those Members who had agreed to make the repayment as at 31 March. A total of £2,359 has subsequently been repaid against this debt. A further £1,500 has not been recognised as a debtor in the absence of a repayment arrangement being agreed.

⁴£16,245 has not been recognised as CFER income (Note 5) and therefore is not reflected in the Statement of Cash Flows as part of the movements in receivables relating to items not passing through the Operating Cost Statement for the year ended 31 March 2010.

13. Cash and cash equivalents

	As at 31 March 2010	As at 31 March 2009	As at 31 March 2008
	£000	£000	£000
Balance at 1 April	299	256	259
Net change in cash and cash equivalents	278	43	(3)
Balance at 31 March	577	299	256
The following balances at 31 March were held at:			
Office of HM Paymaster General	577	299	256
Commercial banks and cash in hand	-	-	-
Balance at 31 March	577	299	256
Amounts issued from the Consolidated Fund but not spent at year end	167	254	255
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	410	45	1
	577	299	256

14. Trade payables and other current liabilities

	As at 31 March 2010	As at 31 March 2009	As at 31 March 2008
	£000	£000	£000
Amounts falling due within one year			
Other taxation and social security	3,626	3,077	2,897
Members	180	102	130
Other payables – current	638	733	1,822
Accruals and deferred income	5,817	7,972	6,295
	10,261	11,884	11,144
Amounts issued from the Consolidated Fund for supply but not spent at year end	167	254	255
Consolidated Fund extra receipts due to be paid to the Consolidated Fund			
received	410	45	1
receivable	36	-	-
	10,874	12,183	11,400

15. Provision for Pension Liability

Benefits provided

The PCPF 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 recommends the amount the Exchequer pays after each triennial valuation of the fund. An Exchequer contribution rate of 31.5% was applied between 1 April 2009 and 31 December 2009. This was subsequently reduced to 26.5% for the remainder of the financial year.

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 7. The Ministerial salary supplement itself is funded by the relevant Government Department direct.

The Managing Trustees are eight current Members of the House of Commons plus two retired former Members. From 1 July 2009, Northern Trust was appointed as custodian, replacing Bank of New York Mellon. The scheme is administered by rpm Ltd. The cost of administering the scheme is included as an administration cost within the House of Commons: Administration Resource Accounts.

Pension Liability

The Government Actuary's Department (GAD) provided an assessment of the PCPF liability to pay benefits accrued up to 31 March 2010 based on a full calculation of the liabilities as at 31 March 2008, but using the assumptions agreed for this assessment. The main assumptions used are set out below:

	As at 31 March 2010	As at 31 March 2009
Rate of increase in salaries		
Includes an assumption that earnings inflation is faster than price increases.	5.4%	4.5%
Rate of increase in pensions in payment and deferment	3.9%	3.0%
Discount rate		
Based on return available on the accounting date by investing in high quality corporate bonds of appropriate currency and term.	5.8%	6.9%
Inflation assumption		
Based on the difference in gross redemption yields on long term Fixed Interest Government stocks and the and the real redemption yields on Index-Linked Gilts of a broadly similar term.	3.9%	3.0%

	2009-10	2008-09
	£000	£000
Movement in deficit during the year		
Deficit in scheme at beginning of year	(142,488)	(97,943)
Current service cost (net of member contributions)	(9,400)	(11,500)
Employer contributions (note 7)	12,625	12,455
Other finance costs	(10,900)	(6,200)
Actuarial loss ¹	(75,800)	(39,300)
Deficit in scheme at end of year	(225,963)	(142,488)

¹Analysis of actuarial loss

Actual return less expected return on pension scheme asset	93,400	(106,500)
Experienced gain arising on the scheme liabilities	6,400	5,900
Changes in assumptions underlying the present value of the scheme liabilities	(175,600)	61,300
Actuarial loss	(75,800)	(39,300)

An increase in the pension provision of £7,675,000 has been recognised as a non cash cost in the Operating Cost Statement. This is calculated as follows:

	£000	£000
Current service cost – represents the value of the additional benefits accrued by scheme members during the year less Members' contributions (£5,600,000 in 2009-10).		(9,400)
Employer contributions (note 7 of the Accounts)		12,625
Finance income :		
Expected return on pension scheme assets	18,800	
Interest on pension scheme liabilities	<u>(29,700)</u>	
Net loss		(10,900)
Increase in provision (note 8 of the Accounts).		(7,675)

Analysis of Assets and Liabilities

	Long term rate of return 2009-10	Value at 31 March 2010	Value at 31 March 2009
		£million	£million
Equities, property etc	7.4%	292	217
UK Government bonds	4.4%	61	19
Other bonds	5.2%	13	53
Cash/other	4.4%	37	-
Total value of assets		403	289
Present value of Fund liabilities		(629)	(432)
Net pension liability		(226)	(143)

The expected returns on bond holdings are based on the yields available in bond markets on the applicable dates, with an allowance for possible default for non-Government bonds. The expected return on cash as at 31 March 2010 is a long-term best

estimate cash return, on the expectation that interest rates will increase to be in line with the yield available on gilts (previously the prevailing Bank of England base rate was used as the expected return on cash).

	2009-10 £000	2008-09 £000	2007-08 £000	2006-07 £000	2005-06 £000
<u>Difference between expected and actual return on assets:</u>					
Amount	(10,900)	(6,200)	900	(1,000)	(2,000)
As a percentage of the scheme assets at the Balance Sheet date	4.82%	4.3%	0.9%	1.0%	1.5%
<u>Experienced gain/(loss) arising on the scheme liabilities:</u>					
Amount	6,400	5,900	(1,400)	5,900	4,000
As a percentage of the present value of the scheme liabilities at the Balance Sheet date	2.83%	4.1%	1.4%	5.7%	3.1%
<u>Total actuarial (gain)/loss:</u>					
Amount	(75,800)	(39,300)	7,700	33,500	(7,500)
As a percentage of the present value of the scheme liabilities at the balance sheet date	33.5%	27.5%	7.9%	32.5%	5.4%

16. Capital commitments

There were no capital commitments as at 31 March 2010 (none as at 31 March 2009).

17. Contingent liabilities and contingent assets disclosed under IAS 37

There were no contingent liabilities at 31 March 2010.

The Members Estimate Committee agreed to meet contractual obligations in full, as in previous years, as part of the transitional arrangements following the setting up of the IPSA. A management decision was made to pay smaller claims in their entirety where no clear apportionment existed, with a view to a later decision on whether to seek a recharge, in order to reduce the workload on both organisations and facilitate faster payments to Members during the period immediately after the General Election. Subject to agreement of a final repayment arrangement, management estimate that around £200,000 should be recovered.

18. Losses and special payments

2009-10	2008-09
£000	£000

Losses

28

58

Losses include a total of £17,612 of mortgage interest, office leases and staff contracts payments which were made to former Members without sufficient evidence. Recovery of this sum is considered unlikely and has therefore been written off.

19. Related-party transactions

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

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

The 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 and amounted to £6.9 million in total.

20. Events after the reporting period

In accordance with the requirements of IAS 10, post Statement of Financial Position events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

The establishment of the Independent Parliamentary Standards Authority (IPSA) from the 2010 General Election resulted in the administration of Members' pay and expenses being transferred from that date.

It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public sector pensions from April 2011.

**House of Commons:
Members Estimate
Members Estimate Audit Committee
Annual Report 2009-10**

Members Estimate Audit Committee Annual Report 2009-10

Introduction

1. This is the sixth annual report of the House of Commons Members Estimate Audit Committee (MEAC), which was established by the House of Commons Members Estimate Committee (MEC) on 14 June 2004, following changes to the governance structure for the Members Estimate agreed by the House in January 2004.
2. This report sets out the events and issues relating to audit and assurance of the Members Estimate during the financial year 2009-10, and the related activities of the MEAC. Details of the membership, meetings and terms of reference of the Committee are included as an appendix.

Members' allowances

3. As set out in previous annual reports, the MEAC has had concerns about the risks associated with the governance, audit and assurance of Members' allowances since the Committee was first established in 2004. During 2009 and 2010 a number of these risks have crystallised, and Members' allowances have been subject to considerable public attention. During this period the Committee has sought to maintain its oversight of the Members Estimate, to assess the assurance which could be provided to the Accounting Officer and to advise him in the exercise of his responsibilities.

Context

Financial year 2008-09

4. In order to understand the issues which arose during 2009-10 it is helpful to be aware of their history. In June 2008 the MEC published a *Review of Allowances* (Third report of Session 2007-08) which was informed by a memorandum submitted by the MEAC and made a number of recommendations relating to audit and assurance of Members' allowances. These included the recommendation "that the House extends the scope of the audit engagement so that it is the same as for other public bodies"; that is a "full-scope" audit. The report was debated in the House on 3 July 2008; the recommendation to move to full scope audit was not then agreed to.
5. In order to understand the possible implications of moving to a full scope audit, the Accounting Officer asked the NAO to undertake a trial of audit work on a full scope basis. The work covered a small sample of claims on five allowances over a three month period, and was intended to provide an indication of the issues that might arise under a full scope audit. Interim results of this work were reported to the Committee at its October 2008 meeting. 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. The NAO identified three issues but concluded that "supporting evidence submitted [by Members] was sufficient". The Committee and the Accounting Officer noted the NAO's conclusion that their work did not give grounds for serious concern about Members' use of their allowances. The NAO made a further report on this work in April 2009.
6. In October 2008 at the request of the MEC, the MEAC undertook a review of audit and assurance arrangements for spending on Members' allowances. 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 report was debated in the House on 22 January 2009: the House resolved to accept all its recommendations, including that the Accounting Officer remove the limitation on the scope of the external auditor's audit, and that the MEAC should advise the Accounting Officer on whether the level of assurance he had received was sufficient to consider

removing the limitation on his Statement of Internal Control. A revised version of the Green Book was also agreed, which came into effect on 1 April 2009.

7. Although the House had made decisions of principle about the audit and assurance of Members' allowances at the end of January, further matters of detail and practical arrangements remained to be resolved. The complexities in the governance of Members' allowances meant that these issues had not been fully resolved by the end of the financial year 2008-09 (the proposed changes needed to be agreed by a number of different committees who were not in agreement). The MEAC held two further additional meetings in March 2009 to assess progress, one jointly with the Finance and Services Committee, because of its concerns about the speed of implementation of the House's decisions. The external members of the Committee expressed concern that the proposed new governance system for Members' allowances, under which Member committees would be responsible both for formulating rules and for determining appeals regarding adherence to those rules, would be contrary to best practice.

Financial year 2009-10

Committee on Standards in Public Life

8. In April 2009, following widespread press coverage of Members' allowances, the Prime Minister asked the Committee on Standards in Public Life (CSPL) to bring forward its proposed inquiry into Members' allowances. The CSPL finally issued its report in November 2009.

Publication of expenses information

9. On 8 May the Daily Telegraph began to publish leaked information relating to Members' expenses. The information, which was held by the House of Commons, had been being prepared for publication in redacted form in response to Freedom of Information requests. The Telegraph published material based on the information in its unredacted form.
10. The Clerk of the House, as Data Controller under the Data Protection Act 1998, initiated an investigation into the loss of the data. The investigation concluded that data security procedures and practices in use by the House of Commons Administration were not the cause of the data loss. Equally, the procedures used by the private contractor employed by the House during the redaction of personal data from the detail of Members' expenses were not the direct cause of that loss. It was virtually certain, though, that the data was misused during the redaction process by one or more individuals who were not employed by the House but whose duties gave them the opportunity of access to the data. The Department of Resources responded to the unauthorised disclosures by bringing all further scanning operations in-house.
11. 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. A further revision of the Green Book, reflecting these changes, was published in July 2009. The Department of Resources was instructed to make arrangements for the quarterly publication of transaction-level information from the start of the financial year 2009-10. This information has since been published on a quarterly basis.

Independent Parliamentary Standards Authority

12. On 23 June the Secretary of State for Justice introduced the Parliamentary Standards Bill in the House of Commons. The MEAC submitted an explanatory memorandum on audit and assurance aspects of the Bill to inform debate in the House at second reading and report stage. The memo addressed issues relating to the role, structure and audit of the new Authority created by the Bill, as well as its financial effects and implications for the House Service.
13. The Parliamentary Standards Act became law on 21 July, establishing a statutory Independent Parliamentary Standards Authority (IPSA) with responsibility for devising a scheme for Members' allowances and for determining claims. An interim Chief Executive of IPSA, Andrew McDonald, was appointed in September. Following a process of open competition Sir Ian Kennedy was appointed as Chair and Jackie Ballard, Rt Hon Lord Justice Scott Baker, Ken Olisa, and Professor

Isobel Sharp as board members of IPSA. A joint House of Commons-IPSA implementation board was set up to facilitate the establishment of the IPSA, including the transfer of certain House of Commons staff to the new body. In early January 2010, the IPSA published a paper setting out proposals for its new scheme for Members' expenses, and conducted a consultation on the paper, which concluded in early February. IPSA began administering Members' allowances following the General Election held on 6 May 2010.

14. At its meetings throughout 2009-10 the MEAC received updates on the establishment of IPSA and the transfer of staff and functions from the House to the new Authority. In February 2010 the Chairman wrote to the Chairman of IPSA, expressing the Committee's view that the recommendation of the Committee on Standards in Public Life that the House and IPSA establish a joint audit committee risked compromising the independence of both bodies. Similar views have been expressed by the Comptroller and Auditor General and Andrew MacDonald.

Legg Review

15. In response to the Daily Telegraph's publication of unredacted expenses data, in May 2009 the MEC 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 2007-08. The period under examination was later extended to 2008-09. 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 examined claims in relation to the rules which existed at the time they were submitted. He delivered his initial report to the MEC in late December 2009. The MEC decided that it would be appropriate to provide a means of adjudication on appeals against Sir Thomas's recommendations, for which purpose it appointed Sir Paul Kennedy. The final conclusions reached by Sir Thomas and the reasoned judgments of Sir Paul on the appeals he had received were published together on 4 February 2010 (HC348). 96% of the sums identified as inappropriately paid have now been repaid to the House.

Department of Resources

16. The Committee has been conscious of the large number of demands which have been placed upon management and staff of the Department of Resources during the financial year 2009-10, which have had an impact on the ability of the department to operate internal controls and ensure compliance with the requirements of the allowances regime to the level desired. These demands have included the reviews of Members' allowances by the Committee of Standards in Public Life ("the Kelly review") and Sir Thomas Legg KCB QC; the preparation of allowances information for release under the Freedom of Information Act; and, the transfer of services and staff to IPSA.

External audit

17. Following the decision of the House in January 2009 to remove the limitation on the scope of the external audit of the Members Estimate accounts, the Accounting Officer and C&AG met in June 2009 to agree a revised scope of engagement for the NAO's audit. This was subsequently reflected in a revised letter of engagement signed between the House and the NAO in February 2010.
18. At its October 2009 meeting the MEAC considered the NAO's audit strategy for the 2009/10 accounts. The NAO had already begun in-year work on the accounts, which continued throughout the financial year, and reported their initial findings to the MEAC. The MEAC discussed the importance of close collaboration between the Department of Resources and the NAO to ensure that work undertaken to support the audit was proportionate, well prioritised and front-loaded as far as possible. The Committee argued that where the evidence required by the Green Book to support allowance payments was identified as missing, payments should not be made.
19. The Department of Resources worked closely with the NAO, first to establish the requirements for the first "full scope" audit of the accounts, and then to provide the evidence required. Because of its concern about the audit's outcome, the MEAC continued to monitor the progress of the NAO audit, through regular meetings between the external members, the NAO, the Director of Internal Audit and the Director General of Resources. The external members updated the Chairman of the Committee following these meetings, in person or in writing.

20. In December 2009 the MEC agreed to a request from the Director General of Resources for additional resource to assist his Department's work to support the NAO's audit by ensuring that evidence requirements in support of payments were being complied with. The Accounting Officer met the Comptroller and Auditor General who confirmed that the additional expenditure involved in supporting this work was, in his view, an appropriate use of public funds. A small team was brought together to work on the project, including staff from Deloitte, the new Internal Audit partner, and staff from the Department of Resources. A senior manager was appointed to lead the work, reporting directly to the Accounting Officer. The work involved identifying instances where inadequate evidence was available to support payments which had been made, and contacting Members to seek that evidence in order to rectify the position. In February 2010 the MEC explicitly delegated authority for the Department of Resources to stop certain payments where insufficient evidence had been provided.
21. Fortnightly meetings between the Department of Resources, the NAO and the Director of Internal Audit were held to track progress, which were attended by the Secretary to the MEAC. At its meeting in January 2010, the MEAC received a report of interim audit findings from the NAO, which provisionally indicated that around one in four payments did not have the level of evidence required by the Green Book. The Committee also received an update on progress from the Department of Resources. The Committee was informed of plans to notify all Members about the NAO's audit and to seek further information from those from whom it was still required. The Committee expressed the view that the accounts should be laid before the summer recess if possible but that in the mean time the collection of supporting evidence should continue with maximum urgency.
22. The MEAC received a further report on progress at its March meeting, and in the interim the Chairman of the Committee was updated on a regular basis. The Committee was conscious that the approaching general election was likely to affect the rate of response from Members to requests for further information about their allowance claims.
23. The Department of Resources continued to seek evidence from Members following the end of the financial year, focusing on the most significant areas of expenditure. At its 7 July 2010 meeting, the Committee received an update on the progress made in securing an adequate level of evidence to support the payments which had been made. At its 14 July meeting the Committee agreed to write to the MEC expressing the Committee's concerns about the potential reputational risk to the House if new proactive and strenuous efforts were not made to support management's work to secure the remaining evidence required. At its subsequent meeting the MEC asked the Accounting Officer to write to all Members concerned setting out the background to the audit and emphasising the importance of compliance with requests for further information. This was done.
24. The restorative exercise continued until 25 October when the MEC instructed the Department of Resources to close the accounts. By its conclusion, the exercise had achieved marked improvements in the level of unsupported expenditure in the most significant areas of spend (staff salaries, mortgage interest, home and office rentals – see table in the Statement on Internal Control).
25. The Committee notes that the expenditure which the NAO considers to have been "paid incorrectly or where entitlement could not be demonstrated" is divided into three tranches. The first tranche of expenditure (£0.8 million) which the NAO considers to have been "paid incorrectly or where entitlement could not be demonstrated" consists of expenditure "where evidence had not been obtained by the House in accordance with the framework of rules governing the administration of Members' Expenses." The Committee notes that management has stated that in most cases there is some evidence to support this expenditure, but that the NAO has opined that it is insufficient to demonstrate, in all material respects that the expenditure was for Parliamentary purposes.
26. The Members Estimate Committee agreed a series of high level tests to be applied to this expenditure in order to establish whether the payment should be considered a recoverable debt. The MEC decided that the House would seek to recover monies from Members where supporting evidence had not been provided as required under the Green Book, and there was either: direct evidence that an incorrect payment may have been made; or, no alternative evidence in support

of the existence and/or accuracy of the underlying transaction. The application of these criteria led to the identification of a total of £33,794 to be recovered, of which £17,612 applied to former Members. This sum was written off due to the limited prospects of recovery, leaving £16,181 to be recovered from current Members. The Committee notes the criteria and is satisfied that the way in which the criteria have been applied is appropriate.

27. The second tranche of expenditure (£1.8 million) relates to the total allowances paid to certain MPs for the year in question, where evidence was held by the police for investigation and was not, therefore, available for audit purposes. As the NAO was unable to audit the expenditure, the C&AG had to qualify his regularity opinion in this respect.
28. The third tranche of expenditure (£11.3 million) consists of that where evidence was obtained by the House in line with the requirements of the Green Book, but where the NAO has opined that those requirements were insufficient to prove that the expenditure was for Parliamentary purposes. The MEAC had previously discussed its concerns about the adequacy of the evidencing requirements of the Green Book. Having taken the view that certain Green Book requirements were inadequate, the NAO elected not to undertake any audit work on these areas of expenditure and was therefore unable to include the expenditure within the scope of its opinion. The Committee notes that management has stated that it has found no evidence to suggest that any of this expenditure was not for Parliamentary purposes. The Committee further notes that the NAO is satisfied that the evidence requirements are met for this tranche of expenditure, in choosing not to qualify its "true and fair" opinion on the accounts.

Internal audit

29. The MEAC approved an Internal Audit plan for the Members Estimate 2009-10 at its 4 March 2009 meeting. Between March and May 2009 the Internal Audit Service undertook a review of certain aspects of the administration of Members' allowances from the 2008-09 plan, the findings of which were considered by the MEAC in October 2009.
30. The workload created for the Department of Resources by the various events detailed above prevented the initiation of the Internal Audit plan at the start of the financial year. At the October 2009 Committee meeting a proposal for monthly key control testing, to replace the original plan, was put forward and discussed. This proposal was superseded however, following consideration of the initial findings of the NAO's audit work for 2009-10, which, as set out above, resulted in the introduction of a compliance team to undertake 100% checks on key areas.
31. Members of the internal audit team were involved in Sir Thomas Legg's review of ACA payments. The amount of resource provided had a significant impact on the team's planning, and was agreed by management to be an appropriate use of the resource. Internal audit work on Members Estimate expenditure for 2009-10 was therefore limited to attendance at liaison meetings with the Department and NAO. In the circumstances the MEAC was content to rely on the work of the NAO.

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32. The external members of the Committee met with NAO and Department of Resources staff in November 2010 to discuss the draft House of Commons: Members Accounts for 2009-10. Following this the accounts were discussed by the full Committee at its 24 November 2010 meeting prior to their being signed off by the Clerk of the House, as Accounting Officer.
33. Among the issues discussed by the Committee on 24 November was the sizeable deficit in the Parliamentary Contributory Pension Fund and the importance of this being reduced. It is anticipated that in the future the administration of the PCPF will be transferred to the Independent Parliamentary Standards Authority.

Conclusion

34. The Committee met four times and rendered advice to the Accounting Officer, the vast majority of which is reflected in the annual report and accounts.
35. The Committee considers that the NAO opinion correctly reflects the position in relation to the Members Estimate Accounts during 2009-10. The administration of transactions under the Estimate was made more difficult for the Department of Resources by a series of in-year changes in the rules under which Members could claim expenses, combined with the introduction of a full-scope NAO audit and a number of other initiatives which the Department was required to support. It would have been desirable for the Member committees concerned to have considerably tightened the evidence requirements of the Green Book at an earlier stage and for the implications of the rule changes, and the raising of expectations as regards the propriety of Members' expenses, which did occur to have been reflected more quickly in the House's internal control processes, as the Committee advised at the time. The time lag before the changes were fully implemented was too long and indicates shortcomings in the ability of the House's internal control and complex governance systems to respond quickly to external shocks.
36. However, once the NAO had identified significant inadequacies in the evidence available to support a large number of claims, the House Administration initiated a major programme of work to establish the extent to which payments were unsupported and, where this was the case, to obtain the evidence needed to support the payments which had been made. The programme had significant success in reducing the insufficiently supported sum to £0.8 million (the subject of the NAO's first qualification of the accounts). The Committee notes that of this £0.8 million, the amount liable to be recovered, that is where incorrect payments were identified or supporting evidence was entirely absent, was under £34,000. The Committee notes that the NAO has implicitly endorsed the way in which the House has accounted for Members' expenses, including the application of the criteria agreed by the MEC to determine the amounts to be recovered, in choosing not to qualify its "true and fair" opinion on the accounts.
37. As discussed earlier in this report, the C&AG has also qualified his regularity opinion on the accounts in two other respects. First in relation to £1.8 million of expenditure where evidence was not available to the NAO as the Members concerned were subject to investigation by the police. Secondly, the NAO have qualified their opinion in respect of £11.3 million of expenditure which was made and correctly accounted for within the rules of the Green Book regime, as agreed by the House. The Independent Parliamentary Standards Authority has been responsible for the design and implementation of a scheme of Members allowances since the 2010 General Election.

Appendix

Membership

38. Alan Duncan MP served as Chairman of the Committee from the start of the financial year until 19 October 2009, when the Rt Hon Sir George Young MP was appointed Chairman.
39. During 2009-10 Nick Harvey MP and Clive Betts MP served as members of the Committee. David Taylor and Alex Jablonowski served as external members. Sir Thomas Legg KCB QC resigned his position as the third external member at the end of June, in order to undertake a review of the Additional Costs Allowance. His position was taken by Mark Clarke, whose appointment, following a process of open competition, was agreed by the MEC in April 2009.
40. After the end of the 2009-10 financial year there were further changes in the membership of the Committee. On 21 June, following the general election and Sir George's subsequent appointment as Leader of the House of Commons, the MEC decided to appoint Alex Jablonowski as an external Chairman of the Committee. This decision was in line with a recommendation of the 2007 Tebbit Review, which was also reflected in the 2009 report *Members' Allowances* published by the Committee on Standards in Public Life. The Rt Hon Rosie Winterton MP, the Shadow Leader of the House, was appointed as a member of the Committee. Following a process of open competition, Stephen Brooker took over from David Taylor as an external member of the committee on 1 July 2010.
41. There were further changes to the membership of the Committee immediately prior to its final consideration of the Members Estimate accounts for 2009-10 in October 2010. Following changes to the membership of the MEC in the wake of the general election, the MEC decided in October 2010 to appoint John Thurso MP as a member of the Committee. Mr Thurso had already been appointed as a member of the MEC and Chairman of the Finance and Services Committee. The MEC decided to appoint the Rt Hon Sir Alan Haselhurst MP, Chairman of the Administration Committee, as the second Member on the Committee. Following the Labour party's Shadow Cabinet elections, the Rt Hon Hilary Benn MP became Shadow Leader of the House, and was appointed by the MEC as the third Member on the Committee.
42. The membership of the Administration Estimate Audit Committee also reflects these changes.
43. The Clerk of the House, the Director General, Resources, and the Director of Internal Audit attend meetings, although they may withdraw for specific items at the Committee's, or their own request.
44. The Committee's secretary is the Private Secretary to the Clerk of the House, Hannah White. The Committee has also been supported by a part-time Committee Assistant.

Meetings

45. The Committee met four times in the financial year 2009-10. It gave further consideration to the Members Estimate accounts for 2009-10 at meetings in July and November 2010. In addition it held an informal "away morning" on 24 September 2009.

Information about the Committee

46. The Committee has a page on the Parliament website on which are published its membership, terms of reference and annual reports. Minutes of meetings are also published online. In July 2009 the Committee agreed that from that meeting onwards, a full minute of the Committee's proceedings should be published online, in place of the shorter formal minutes which had been published previously.

Administration Estimate Audit Committee

47. 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.
48. 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 the internal audit partner, who work with the House's Internal Audit Service,¹ 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.
49. The annual report of the AEAC was published with the House of Commons Commission's Annual Report for 2009-10 in the summer of 2010.

Terms of reference

50. The Committee's current terms of reference are:

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 audit 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.

¹ In October 2009, Deloitte took over the contract for the Internal Audit partner from PriceWaterhouseCoopers.