

**Report by the Comptroller and Auditor General on the 2009-10 House of Commons Members Resource Accounts**

**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 reimbursement 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 reimbursed 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.

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**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 reimbursement 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-imbursement 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.

<b>Allowance (See note 8 to the Resource Accounts)</b>	<b>Account figure £ million</b>	<b>Unsupported £ million</b>
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
<b>Totals</b>	<b>70.70</b>	<b>0.83</b>

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 re-imbursed 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.