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HOUSE OF
COMMONS



Audit and Assurance of MPs' Allowances

August 2008



Audit and Assurance of MPs' Allowances

Presented to Parliament
By the Lord Privy Seal, Leader of the House of Commons
and Minister for Women and Equality
By Command of Her Majesty
August 2008

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Foreword

To: All Members of the House of Commons

On 3 July, the House of Commons agreed some important measures that will improve the way the £93 million¹ of public money claimed by Members annually is controlled, and audited and will put the disciplines in place to prevent abuse. We agreed:

- that, before any salaries will be paid, all Members' staff contracts and job descriptions must be deposited with the Department of Resources (from 1 October 2008). This will promote fairness and transparency in the engagement of MPs' staff;
- that the receipt threshold for expense claims will go down from £250 to £25 from 1 April this year. This will be crucial to the successful implementation of an enhanced system of expenditure control. It reduces from 4.3% to under 1% non-vouchable expenditure; and
- on the need to strengthen the system of scrutiny and that a rigorous internal system of audit of the Additional Costs Allowance be introduced covering 25 per cent of Members each year, and every Member each Parliament.

In order to put into effect these agreed improvements, as well as to achieve our aspiration to build public confidence in the use of public money by MPs, we are consulting on further steps to improve financial control and audit.

Over the past 6 months, the Members Estimate Committee (MEC) has undertaken a thorough review of the position and published recommendations and evidence. We are most grateful to them for all the work they undertook.

Parliament is at the centre of our national democratic institutions. Last year in the Governance of Britain White Paper², the Government made it clear that renewing trust in these institutions was essential to our proposals for constitutional renewal, and that the role of Parliament should be strengthened.

1 £156m total spend on salaries, pensions and allowances for year 2006-2007. £93m consists of staffing costs, Incidental Expenses Provision, Additional Costs Allowance and travel costs. HC 832, House of Commons Members. *Annual Report, Resource Accounts & Audit Committee Annual Report 2006-07*.

2 Cm 7170.

Over the past 150 years, British politics and public life has enjoyed a comparatively high reputation for propriety and low levels of corruption. This is no accident. This reputation was built on institutional arrangements designed to ensure that the public interest came ahead of the private. It falls to each generation to make the institutional arrangements which will be effective, taking account of new problems and the higher expectations of the public. In recent months there has been particular focus on the use, and in a small number of cases, abuse of public money by Members of Parliament.

MPs play a vital role in our democracy – representing their constituents, legislating and scrutinising the executive. To do this, they must have the resources to do their work effectively and they must command the confidence, respect and trust of the public. We need arrangements which achieve both these aims.

There is a consensus on the need to raise trust and public confidence in Parliament. We need also to build a consensus on the means to achieve it. Such means must be proportionate to the sums involved and should build on the existing parliamentary machinery for audit and compliance. We are seeking Members' views on these measures and comments are sought by 29 September.

Comments can be sent in writing to Office of the Leader of the House of Commons, 26 Whitehall, London SW1A 2WH or by email to leader@commonsleader.x.gsi.gov.uk This document is available on the website commonsleader.gov.uk



Harriet Harman
Leader of the
House of Commons



Helen Goodman
Deputy Leader of the
House of Commons

August 2008

Summary of Proposals

1. In order to put into effect the changes agreed on 3 and 16 July and to build on the determination of the House to protect public money from abuse and to justify public confidence in expenditure on MPs allowances, this paper sets out what has been agreed and poses questions on further steps the House can take to improve financial control and audit.
2. In summary, the key elements as agreed on 3 and 16 July regarding allowances are that:
 - the Advisory Panel on Members Allowances (APMA) prepare a redraft of the Green Book;
 - the APMA will review the Green Book;
 - the “John Lewis List” will be abolished; and that
 - the APMA membership should be augmented by two independent external appointees for the duration of the review.
3. Furthermore, we propose consultation on the following which should be subject to views from Members and the APMA:
 - as suggested in the Written Ministerial Statement of 16 July, whether the Additional Costs Allowance be changed so that the reasonable reimbursement of the costs of furniture and other household goods be capped at 10% of the ACA in any one year; and
 - the need for the APMA to look at the case for a further reduction of receiptable expenditure to £0 in future for maximum transparency.
4. The Members Estimates Committee would, following advice from the APMA, consider the revisions to the Green Book.
5. On Audit, it was agreed by amendment on 3 July that a rigorous internal system of audit of the Additional Costs Allowance be introduced covering 25 per cent of Members each year, and every Member during each Parliament. It was agreed on 16 July that an external financial audit be undertaken by the National Audit Office covering all the allowances in the Green Book, including:
 - Additional Costs Allowance;
 - travel;
 - staffing costs;

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- Incidental Expenses Provision for other office costs; and
 - the Communications Allowance.
6. The audit would include:
 - application of the rules and of guidance as to what is and what is not acceptable under the rules;
 - review of the management controls and processes used by the Department of Resources to ensure compliance with the rules; and
 - checks and testing of the controls, to ensure that they are adequate and effective.
 - the NAO would report to the Members Estimate Audit Committee, which will include 3 external independent members (the Committee currently has 2 external members).
 7. Crucially, the new requirement for receipts in support of all claims over £25 (previously £250) will provide the evidence needed to check on expenditure actually incurred by members rather than taking allowance claims at face value as now.
 8. The Comptroller and Auditor General believes that given the additional evidence to be provided in support of all claims there is an opportunity to strengthen significantly the assurance that public money has been properly spent.
 9. The NAO might undertake an extended external audit with the statements for the financial year 2009-10.
 10. Recent instances of MPs employing their children has raised public concern and dented public confidence. We are therefore consulting on whether MPs' children should be barred from paid employment in their parent's constituency or parliamentary offices, or in any other role relating to the parent's work as an MP.
 11. We are seeking views on these proposals by 29 September 2008.

Context

Role of the MP

12. UK voters elect Members of Parliament to represent their interests in the House of Commons. MPs' work encompasses Parliamentary work, party political work and constituency work. The role of the MP has changed significantly in the last 40 years. The volume of legislation, the extension of parliamentary scrutiny and the level of constituency work have all increased. Constituency work is held by both MPs and the public to be a vital part of the MP's role. A recent poll put 'representing the views of local people in the House of Commons' at the top of the public's priorities, and 'dealing with individual constituent's problems joint third, alongside 'holding the government to account'³.
13. Constituency business is arguably the area of greatest increase in MPs workload. In 1971, the Senior Salaries Review Body⁴ discovered that the average MP spent 11 hours a week on constituency business. By 1982, this had increased to 16 hours a week. A survey of new members a year after the 2005 election suggested that they were spending 49% of their time on constituency business.⁵ In the Hay's Group survey of members undertaken for the Members Estimate Committee, 64% percent of those asked saw a substantial increase in workload relating to 'working for the constituency as a whole' and 92% saw a substantial increase in constituency case work⁶.

The Current System of Allowances

14. To enable Members to fulfil their roles properly, a system of allowances has been developed so that MPs can work effectively at Westminster and in their constituencies, comprising:
 - Travel – between Westminster and the constituency;
 - Additional Costs Allowance (ACA) – for staying away from home (whether at Westminster or the constituency);
 - Staffing costs – for employing staff;

3 *Audit of Engagement*, (2007).

4 Then known as the Review Body on Top Salaries.

5 Hansard Society, (2006) *A Year in the Life*.

6 HC 578-II MEC Review of Allowances, *Third Report of Session 2007-08, Volume II* (page 64).

- Incidental Expenses Provision – for other office costs and
 - Communications Allowance – to pay for communications with constituents.
15. The detail, rules, amounts and actual use are fully described in the MEC Review volumes I and II⁷.

Key Principles

16. In looking at how this system of allowances operates, there are two key principles:
- (1) That Members are fully reimbursed for costs properly incurred.
17. Failure to achieve a fair system will result in a democracy unrepresentative of the diverse electorate, unable to meet its needs or sustain its confidence. The MP's role has changed since the eighteenth century when it was a part-time exercise undertaken by those who could fund themselves. David Lloyd George recognised the issue of ensuring that being a politician is not limited to those who can afford it in 1911 when he called it the “demand of democracy”.
18. We are now committed to delivering a package of pay and allowances that provides appropriate support for Members.
19. The Government does not want to move to a political system or culture that requires individuals to have extensive private means and excludes those whom voters support, but who could not afford to fulfil the role without a system of allowances.
20. The second key principle is that:
- (2) The money is properly used for the purposes for which it was voted.
21. The MEC has agreed to publish greater detail on MPs' allowances (subject to MPs' security needs), but greater transparency does not of itself guarantee that the money has been spent appropriately.

⁷ HC 578-I and HC 578-II, *MEC Review of Allowances, Third Report of Session 2007-08, Volumes I and II*.

22. Therefore, a more robust system of audit is essential to ensure an appropriate level of scrutiny remains. In order to instil confidence, it is essential that the audit regime should be both robust and proportionate.

Progress in Recent Months

Pay

23. The House of Commons decided on 24 January 2008 that MPs should no longer decide on, and vote for, their own pay but that an independent body do this. This decision was taken on 3 July when it was further confirmed that this role should be undertaken by the Senior Salaries Review Body.

Control

24. The MEC decided that from 1 April, receipts would be required for expenditure claims over £25. The previous limit had been £250. This decision alone will make a significant difference to the potential scope of the NAO's audit, cutting from 4.3% to under 1% the proportion of non-vouchable expenditure, based on figures for Additional Costs Allowance, Incidental Expenses Provision and Communications Allowance for 2007 – 2008. This decision was confirmed by the House on 3 July. If MPs' claiming patterns reflects that of recent times, the amount of unvouched expenditure is, in future, unlikely to be material. However, APMA will need to look at the case for a further reduction to £0 so that all expenditure could be receiptable, ensuring maximum transparency.

Staff contracts

25. On 3 July, the House voted for a number of changes to the structure of allowances, control over spend and to extend audit. The MEC proposals and the House's decisions are attached at Annex A. The most significant change was to require that all staff contracts and job descriptions be deposited with the Department of Resources (DoR) before any salaries will be paid. The House also agreed on 27 March 2008 to make compulsory from 1 August 2008 the registration of any family members employed through the Staffing Allowance. This system will be rigorously enforced.

Controlling Expenditure by MPs

26. The control of expenditure by MPs is governed by the rules in the Green Book, which is prepared by the Department of Resources under the authority of the MEC and is updated periodically. This sets out the detailed rules followed by the Department of Resources.
27. As stated in the 23 June 2008, Review of Allowances by the MEC (HC 578-1), the Department of Resources currently maintains the systems and procedures that control the expenses arrangements.
28. Some expenditure is reimbursed to Members, but much is paid direct to staff or suppliers on Members' behalf by the Department of Resources. It is for this reason that rigorously enforced controls are at least as important as the provision of supporting receipts.
29. The structure of allowances is very important as they must be, and be seen to be, appropriate to meet the actual needs and costs MPs face in doing their work. There has been a great deal of discussion of the structure recently, including in the debate on 3 July.

New Role of the APMA

30. The House agreed on 16 July, that the Advisory Panel on Members Allowances should prepare a redraft of the Green Book setting out the detailed rules and guidance on entitlements to allowances. The Panel's recommendations will then be considered by the MEC. For the rewriting of the Green Book, the membership of the APMA should be augmented by two external appointees. The APMA will also keep the Green Book under review and advise on any further modifications to the rules that may be required, including the reimbursement of reasonable costs of keeping a second residence. Furthermore the House agreed by Resolution on 16 July to abolish the so-called John Lewis list.
31. Therefore, we wish to consult on the following proposal:
 - As outlined in the Written Ministerial Statement of 16 July, should the ACA be changed so that the reasonable reimbursement of the costs of furniture and other household goods be capped at 10% of the ACA in any one year? This should be subject to views from Members and the APMA; and
 - Whether the receipt threshold should be reduced so that receipts are required for all transactions.

Audit and Assurance

32. The paper by the Comptroller and Auditor General published as Appendix 3 to the MEC report (reproduced at Annex C) provides an excellent overview of the audit and assurance arrangements for Members' allowances.
33. He describes the essential components of an assurance regime as being:
 - clear rules and guidance as to what is and what is not acceptable under the rules;
 - robust management controls and processes designed to ensure compliance with the rules;
 - checks and testing of the controls, to ensure that they are adequate and effective; and
 - reporting on the outcome of those checks to those wanting the assurance.
34. The strongest assurance is provided through a combination of good governance arrangements, a robust and firmly enforced system of internal controls (this provides internal assurance) and external audit, which provides independent assurance to the House and ultimately the public.
35. To date, the assurance arrangements have been that systems and processes are audited internally by an audit team (including support from external consultancy PricewaterhouseCoopers) who carry out checks on the Department's systems. In order to strengthen this system it was agreed on 3 July to strengthen this internal audit by introducing a system of audit of the ACA which would cover 25 per cent of Members each year, and every Member each Parliament. The financial statements of the House are externally audited by the National Audit Office (NAO).
36. The external audit includes, amongst other things, testing by the NAO of a sample of transactions, as part of their annual audit of the Members Estimate Resource Account, to ensure that:
 - the claim is submitted by an eligible Member;
 - the claim reflects the relevant allowance; and
 - the House authorities have properly accounted for those claims.
37. In the absence of a complete audit trail of supporting receipts and vouchers, the scope of the NAO's audit engagement has been limited so that it does not have to go "behind the member's signature" to seek evidence that the expenditure actually incurred is as stated in the chain.

Proposals for change

38. In looking at what further steps should be taken, it is important that a proportionate and risk-based approach is taken. In order to determine a proportionate approach to audit and assurance, it is helpful to consider the amounts and types of expenditure claimed by Members under the allowance regime.
39. As part of their review, the MEC collected important evidence on how Members actually spend their allowances and to which items it is, therefore, worth paying most attention in both the control systems and audit arrangements. The total in allowances which any Member may claim is £160,000. The salaries allowance accounts for £100,205 of the total, which is why the new requirement to deposit contracts of employment and job descriptions is essential.
40. There are no direct analogies for control of MPs' expenses, although the voluntary sector may be the best comparator. Full financial audit is only required for charities with an income over £500,000 per annum unless they hold aggregate assets worth more than £2.8 million and have an income over £100,000, Annex B sets out in more detail the assurance thresholds for charities.
41. The maximum allowance for constituency office costs under the Incidental Expenses Provision (IEP) was £20,440 in 2006-07. MEC evidence demonstrates that last year three quarters of the IEP was spent on general running costs such as rent, office equipment and utility bills⁸. Similarly, for the ACA rent or mortgage interest costs make up the highest element on the allowance. So robust systems for checking and auditing these claims are important as well as looking closely where patterns of spend depart from the usual without apparent reason (eg: the difference between rural and urban seats). MEC evidence also shows that for most Members truly discretionary spend is about £15,000.
42. We are consulting on whether the ACA should be changed so that the reasonable reimbursement of the costs of furniture and other household goods be capped at 10% of the ACA in any one year. This will build on the determination of the House to justify public confidence in expenditure on MPs' allowances.
43. In order to achieve the desired outcome, rigorous enforcement of the rules is needed by the Department of Resources. Robust management controls and process are one of the main requirements for assurance. In order to carry out this role effectively, the way in which the Department of Resources carries out its work should be reviewed.

8 HC 578-II MEC Review of Allowances, Third Report of Session 2007-08, Volume II (page 22).

44. The current resourcing and structure of the Department of Resources may need to be strengthened. For future years, the evidence of expenditure potentially available for both internal and external audit will be substantially improved by the decision to require the deposit of staff contracts and job descriptions from 1 October 2008 and to cut unreceptable expenditure to £25.
45. The NAO already carry out an audit of these allowances, but, as noted above, the scope of their engagement is limited. Now that the rules around allowances have changed, there is an opportunity to broaden the scope of their audit engagement. The NAO would extend their external audit to cover all four of the dimensions set out by the Comptroller and Auditor General and reflected above. His checks would include, as now, random sampling of transactions under each of the allowances. With a full audit trail of supporting evidence, however, he would, in future, be able to determine whether claims were not only for an apparently valid purpose, but were also supported by receipts and vouchers.
46. The Comptroller and Auditor General would report on the outcome of the testing of controls, which is part of the standard audit process whereby external auditors assess the adequacy of key control systems. Any issues would be brought to the attention of the Accounting Officer and Members Estimate Audit Committee via their Management Letter, in accordance with Auditing Standards.

Timetable

47. During the remainder of the current year, the Department of Resources will need to improve their current processes and set up new systems for processing expenses. If the House were content, the NAO would then be able to undertake an extended external audit once the new expenses regime has been fully implemented. This might have effect from the start of the financial year 2009-10.

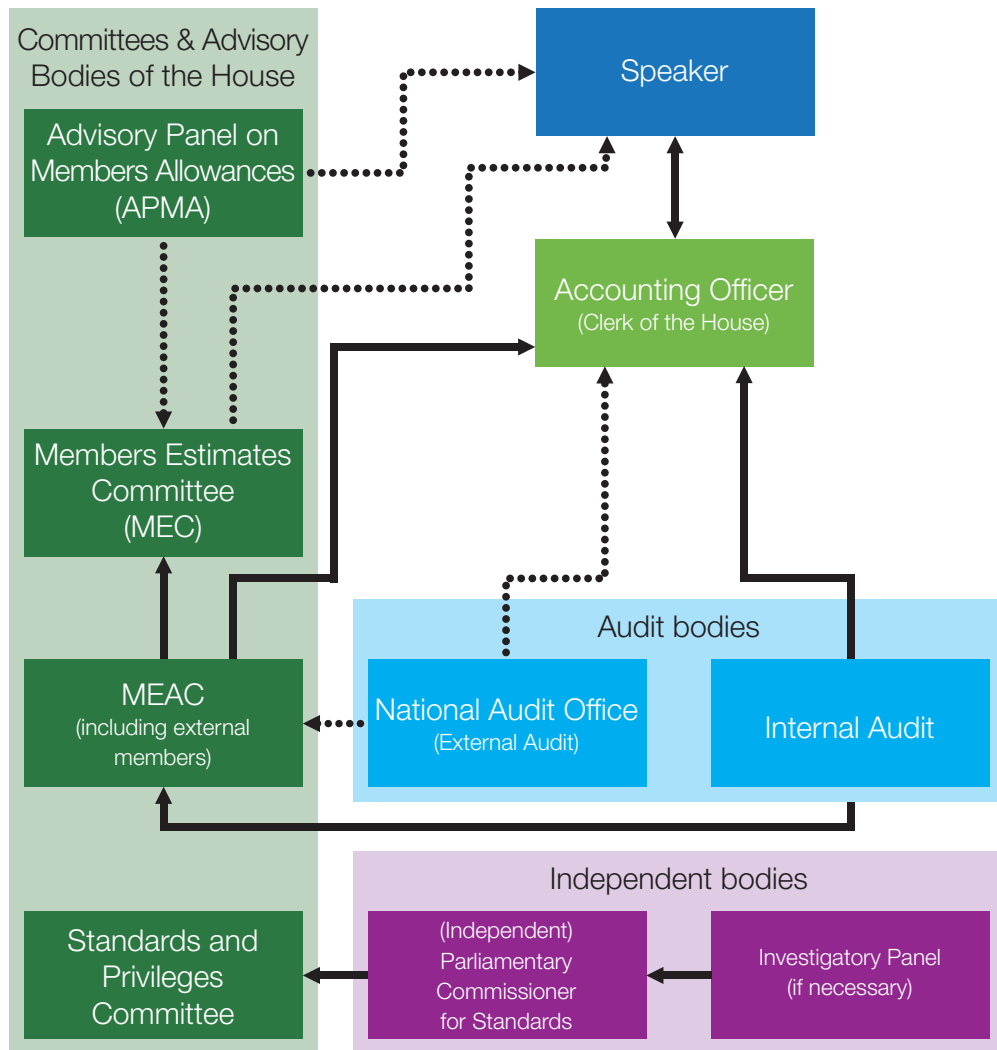
Impact of an extension to the scope of the external audit

48. A risk-based approach is standard audit practice. The costs of the audit in financial, administrative and time terms should be proportionate to the sums being audited. While all allowances would be subject to audit, the analysis above suggests that obtaining assurance over expenditure should, in most cases, be reasonably straight forward.
49. One of the general concerns expressed by Members in the 3 July debate on the MEC Report was that the audit recommendation would result in an over bureaucratic, intrusive and costly exercise. As noted in the C&AG's paper, the expansion of the scope of the NAO's external

audit would have some impact on the notional fee charged, currently £50,000 each year, due to the additional testing required. Further guidance on what might be required to satisfy any audit requirements could be included in the revision of the Green Book.

50. All supporting documentation, including invoices and staff contracts as required, should, in future, be available in the Department of Resources. The audit would then still take place, as it does now, in the finance department. Any queries over missing information would be routed through the Department of Resources, as is the case for other audits.

Current Parliamentary Machinery for Audit and Compliance⁹



⁹ Precise relationships between bodies involve a range of roles and responsibilities in different circumstances which cannot be represented in one diagram. Subject to this, the dotted lines represent essential advisory relationships and full lines those which are closer to reporting relationships.

The responsibilities of these bodies are as follows:

- The role of the **MEC**¹⁰ (Members Estimate Committee) is to keep under review and (within restricted limits) make modifications to the provisions of Resolutions of the House relating to expenditure under the Members Estimate, and to advise the Speaker on application of those rules in individual cases. It is also chaired by the Speaker;
- The **Accounting Officer** is appointed by the Speaker and has responsibility for preparation of the resource accounts; under the general structures for public finance, Accounting Officers have responsibility for the propriety and regularity of the public finances for which they are answerable and may be called to account in Parliament for the stewardship of the resources within an organisation's control;
- The **MEAC** (Members Estimate Audit Committee) has general oversight of the work of internal audit and review relating to the Members Estimate. It also receives and considers reports from the NAO as external auditor;
- The **APMA** (Advisory Panel on Members Allowances) advises the Speaker and the Members Estimate Committee on the application of the Resolutions relating to Members' allowances, and arrangements for the provision of IT and training for Members and their staff; and
- **The Standards and Privileges Committee**¹¹ is charged with (as well as privilege matters) overseeing the work of the Parliamentary Commissioner for Standards and the Register of Members' Interests and considering matters relating to the conduct of Members, including specific complaints drawn to the attention of the Committee by the Commissioner. It reports to the House.

51. In looking to strengthen this machinery, and to build the confidence of the public in it, it would be helpful if there were a clear separation in the House between the bodies responsible for setting the detailed rules and guidance, and judging hard cases; those controlling expenditure; and those overseeing audit and discipline.

52. A possible route forward is for:

- The APMA to have a strengthened and clear advisory role in the relation to the DoR's work on setting the detailed rules and guidance and interpreting them in hard cases;

10 Established under Standing Order No. 152D.

11 Established under Standing Order No. 149.

- The Clerk of the House to continue in his role as Accounting Officer, overseeing the DoR's control function; and
- The MEAC receive the NAO's enhanced audit or, if this was felt to be impractical, to establish a new audit committee, which should (like the MEAC) include three external independent appointments.

Compliance

53. Good expenditure controls supported by an enhanced audit will assist:
- Members to manage their resources better;
 - the Department of Resources to provide a service which both supports and sets proper boundaries; and
 - the public have confidence that public money is spent wisely and well.
54. The Department of Resources plays a vital role in the advice it offers Members on a range of issues from pay, pensions, and the use of allowances. The advice – more than often – is given in person or on the telephone. The Member therefore acts in good faith on the advice. However, the Member's understanding of the advice can be challenged by another Member or the public, with referral to the Parliamentary Standards Commissioner and subsequent reporting in the media. We propose that in future, all advice given by officials in the Department of Resources should be minuted.
55. We further propose that the structure of the Department is reviewed afresh, to ensure the needs are fully reflected. In particular, it is important that the structure ensures that a sufficiently senior head of unit is responsible for each of:
- Pay;
 - Pensions;
 - Allowances; and
 - Freedom of Information
- each reporting to a very senior member of the Department or, as appropriate, the Director of Resources.
56. Both Members and the Department of Resources have a role to play in ensuring compliance with the rules. However, there are "hard cases" where the rules may be difficult to interpret in unusual circumstances and unfortunately we cannot assume that in future Members may not break the rules either inadvertently or deliberately.

57. It is important, therefore, to look at the arrangements for handling instances of non-compliance and see how these fit with the other institutional arrangements for control and audit.
58. There are three potential scenarios:
- the first is as set out above, where there are difficulties in interpreting the rules;
 - the second is any issues of non-compliance found as part of the external audit process; and
 - the third is potentially serious breaches of the rules, reported to the Parliamentary Standards Commissioner and which may result in a report from the Standards and Privileges Committee; and possible sanction by the House.

These three scenarios are dealt with in turn below.

Enforcement of the rules

59. There is a distinction between the roles of processing the transactions, and providing advice and guidance to Members to help them follow the rules. These roles require different skills, but currently they are performed by the same team within the Department of Resources. This distinction has been recognised by the Department of Resources and the Members Estimate Audit Committee in their paper to the Members Estimate Committee published as Appendix 2 to the MEC Report on Members Allowances. Additionally, there needs to be the capacity for challenge when necessary, prior to payment of the claims, where claims are not in accordance with the rules, including the provision of supporting documentation.
60. The Department of Resources has a role to play in ensuring compliance with the rules and should feel able to apply and enforce the rules. Indeed, they should be robust in doing so. However, there are “hard cases” where the rules may be difficult to interpret in unusual circumstances. There needs to be a mechanism for dealing with such cases, where the Department of Resources and individual Members are unable to reach an agreement.
61. The Advisory Panel on Members Allowances could be asked to oversee the Department of Resources’ work on setting the rules and interpreting them in hard cases. The Members Estimate Committee would still have the same responsibilities for providing advice on the application of the Resolutions of the House relating to allowances, and its other responsibilities relating to allowances. The Clerk of the House

would continue in his role as Accounting Officer, overseeing the Department of Resources' control function.

Audit reporting arrangements

62. Audit Reporting is considered in the Auditing Standard on "Reporting to those charged with governance". The arrangements currently in place comply with that Standard, so even with an enhanced scope of engagement for the audit, these reporting arrangements could remain as they are at present. The Members Estimate Audit Committee would continue to receive reports on the findings of the NAO's audit. This Committee benefits from the contribution of two externally appointed members (it is proposed that it should become three), as well as three Members of Parliament.
63. This Audit Committee reports to the Members Estimate Committee, which has the same membership as the House of Commons' Commission, on any matters arising from the audit, as it feels appropriate. Indeed, the Members Estimate Audit Committee had previously raised its concerns over Members' allowances with the Members Estimate Committee. Its proposals were set out in the MEC Report as Appendix 2.
64. The option of reporting any potentially serious breaches of the rules to the Parliamentary Standards Commissioner is one that is open to the MEC. In addition, the Members Estimate Audit Committee publishes its own Annual Report, in which it could report on its activities in this area.

Reporting of potentially serious breaches of the rules

65. For potentially serious breaches of the rules, there is already the option of reporting to the Parliamentary Standards Commissioner. An initial investigation is then carried out by the Commissioner, who will report to the Standards and Privileges Committee of the House on whether there should be a full investigation. If he decides that a full investigation is needed he also reports on the outcome of this to the Standards and Privileges Committee, who consider his report. The Committee then makes its recommendations based on this report.

Employment of Members' Children

66. Recent instances of MPs employing their children has raised public concern and dented public confidence.
67. The Standards and Privileges Committee have produced 2 recent reports on the employment of family members¹². The Committee proposed a new category in the Register of Interests for family members employed and remunerated through the Staffing Allowance. This became voluntary in April 2008 and will become compulsory in August 2008. The Committee on Standards in Public Life also deemed it acceptable for MPs to employ family members where appropriate¹³. The Committee stated that staff should always have appropriate skills, be remunerated at a level commensurate with their responsibilities, experience and skills, and should have a contract setting out their duties.
68. MEC recommendations making it mandatory for Members to deposit staff contracts and job descriptions with the Department of Resources will come into force from 1 October 2008. They are designed to promote fairness and transparency in the engagement of MPs' staff. The decisions taken by the House and the MEC on staff pay on 24 January, 10 March and 3 July mean that the overall staffing allowance for Members' staff is now £100,205.

12 Standards and Privileges Committee, Fourth Report of Session 2007-08, *Conduct of Mr Derek Conway*, HC 280 and Standards and Privileges Committee, Seventh Report of Session. 2007-08, *Employment of family members through the Staffing Allowance*, HC 436.

13 CSPL principle, 22.

69. The Standards and Privileges Committee recently stated that “the current ability of MPs to use public money to employ members of their own family is an unusual arrangement which might not be allowed elsewhere”¹⁴. This has to be balanced against the fact that the MEC “observe with confidence that many MPs’ spouses working either in the House or in constituencies – or both, like the Member- are first class employees”¹⁵. Whilst spouses may have the skills, experience or qualifications to make them the most appropriate candidate for work in their partners’ parliamentary or constituency office, this is less likely to apply to MP’s children whether under 18 or young adults. Furthermore, recent incidents involving the employment by MPs of their children, demonstrate clearly the negative impact this has on public confidence in Members.
70. The proposal is therefore that MPs’ children should no longer be able to gain paid employment in their parent’s constituency or parliamentary offices, or in any other role relating to the parent’s work as an MP.

14 Standards and Privileges Committee, Seventh Report of Session 2007-08, *Employment of family members through the Staffing Allowance*, HC 436, Appendix 2.

15 HC 578-I *MEC Review of Allowances, Third Report of Session 2007-08, Volume I* (page 30).

Conclusion

71. There is a consensus that effective control, audit and discipline should be strengthened further.
72. The House has made some changes, more are already in the pipeline.
73. This paper sets out further possibilities for change which could have real, early and effective impact.
74. Comments should be submitted by 29 September 2008.
Comments can be sent in writing to Office of the Leader of the House of Commons, 26 Whitehall, London SW1A 2WH or by email to leader@commonsleader.x.gsi.gov.uk This document is available on the website commonsleader.gov.uk

Annex A

MEC Recommendations and 3 July Decisions and Amendments

MEC Recommendation	The 3 July Amendments
1. Practice Assurance: 25% of Members each year and every Member per parliament	NOT ACCEPTED
2. Audit engagement same as for public bodies by National Audit Office	Rigorous internal audit of 25% of members each year and every member per parliament of ACA
3. From 2009-10 receipt threshold down to £0	NOT ACCEPTED
4. Green Book to have more detailed rules in effect by 1 April 2009	NOT ACCEPTED
5. Staff contracts and job descriptions deposited with DoR	ACCEPT – from 1 October 2008
6. MPs no longer claim reimbursement for furniture, household goods and capital improvements	NOT ACCEPTED
7. Next parliament: new outer London MPs eligible to claim ½ of overnight expenses allowance; all further to following parliament	NOT ACCEPTED
8. Constituency office rental costs met centrally by HoC; phased in over time*	ACCEPT – from 1 April 2010
9. Communications Allowance rules tightened; claims over £1000 to be cleared by DoR	ACCEPT – from 1 April 2009
10. Communications Allowance frozen 04/09 to 04/12	ACCEPT – from 1 April 2009
11. House to apply same car mileage as HMRC	ACCEPT – from 1 April 2009

MEC Recommendation	The 3 July Amendments
12. Separate mileage limits (without documents) for small, medium and large constituencies	ACCEPT – from 1 April 2009
13. ACA to become overnight expenses allowance; £19,600 max budget, but itemised with flat rate of £30 per day	NOT ACCEPTED
14. New London costs allowance of £7500 (taxable)	ACCEPT – from 1 April 2009
15. Resettlement grant based on MPs leaving HoC in early 50s	ACCEPT – from end of next parliament
16. Incidental Expenses Provision to be kept for work stations in London (contrary to SSRB)	ACCEPT
17. No further increase in Staffing Allowance for full-time staff (contrary to SSRB)	ACCEPT
18. Partners not to have same travel arrangements as Civil Partners and Spouses (contrary to SSRB)	ACCEPT

*Accept in principle, but MEC to prepare detailed proposal

Decisions from 16 July Opposition Day Debate

1. A re-writing of the Green Book by the Advisory Panel on Members' Allowances (APMA), augmented with 2 independent external appointees.

2. APMA to advise on modifications, including:
 - a) Guidance on reimbursement of reasonable 2nd Home costs
 - b) Abolition of the 'John Lewis List'

3. External Audit by the National Audit Office, including:
 - a) Rules and Guidance on what is and is not acceptable under the rules
 - b) Management controls and processes used by the Department of Resources to ensure compliance
 - c) Checks and testing of the controls to ensure they are adequate.

Annex B

The degree of assurance required for charities with different income levels

Income	Less than £10,000	£10,000 – £100,000	£100,000 – £250,000	£250,000 – £500,000	Over £500,000
Non-company	None	Independent Examination ¹²	Independent examination unless aggregate assets greater than £2.8 million and income greater than £100,000, then audit	Independent examination by qualified examiner unless assets greater than £2.8 million, then audit	Audit
Company	None	Independent Examination	Independent examination unless assets greater than £2.8 million and income greater than £100,000, then audit	Independent examination by qualified examiner unless assets greater than £2.8 million, then audit	Audit

16 Independent Examination (IE) is an alternative to a financial full audit for smaller charities – a legally acceptable form of external scrutiny of their end of year accounts. It doesn't scrutinise a charity's accounts to the same level as an audit. An independent examiner writes a report which gives negative assurance ('no matter has come to my attention ...') rather than positive assurance (a 'true and fair' view). An independent examiner must be **independent**, have the **requisite ability** and the **practical experience** to carry out a **competent examination** of the accounts – though doesn't necessarily need to hold a formal qualification.

Annex C

Paper by the Comptroller and Auditor General, National Audit Office as included in the MEC Review of Allowances

Audit and Assurance Arrangements for Members' Allowances

1. The Speaker announced on 4 February 2008 that the Members Estimate Committee (MEC) was to conduct a root and branch review of the current system for Members' allowances.
2. In its Second Report of Session 2007–2008, the Committee set out the issues to be considered in the review.¹⁷ It stated that:

The Committee is very conscious that the new low threshold for claims needs to be under-pinned by a more robust regime for audit. The House will need not just a new control regime over claims, but also management controls and compliance work, with both supported by proper audit assurance. Members from all sides of the House have told us that the current arrangements are well below the standards they were accustomed to in previous jobs outside the House.

3. At its meeting with the Comptroller and Auditor General on 30 April 2008 the Committee asked him to prepare a paper on how a more appropriate level of assurance could be provided to the House of Commons and, through them, to the public, that expenditure on Members' allowances was in accordance with Parliamentary intention, and was properly controlled.
4. In recognising that the current assurance regime was in need of strengthening, the MEC asked two questions:

Is there a better model for providing assurance that public money for Members' expenses spent on goods and services has been used for proper purposes? and

¹⁷ www.publications.parliament.uk/pa/cm200708/cmselect/cmmemest/464/464.pdf

What are the essentials of a new regime which will provide transparency and inspire public confidence?

5. This paper is designed to assist the MEC in their consideration of these questions. Throughout this paper we have used the term “the House Authorities” to refer to the Administration of the House, often effectively meaning the Department of Resources. “The House” refers to the House of Commons, meaning the Members, including relevant Committees or other bodies as appropriate.

What is assurance?

6. Assurance is independent confirmation that assertions made are consistent with the evidence. In the case of assurance over Members’ allowances, the assurance sought is that only legitimate claims in respect of Members’ allowances are accepted and that they are processed, paid and accounted for in an efficient and effective manner.

What are the essential components of an assurance regime?

7. As recognised by the Committee, the essential components of an effective assurance regime are:
 - clear rules and guidance as to what is and what is not acceptable under the rules
 - robust management controls and processes, designed to ensure compliance with the rules
 - checks and testing of the controls, to ensure that they are adequate and effective and
 - reporting on the outcome of those checks to those wanting the assurance.

Who can provide this assurance?

8. The strongest assurance is generally provided through a combination of good internal governance arrangements, a robust and firmly enforced system of internal controls and independent external audit.
9. For the **House Authorities** assurance will come from its own internal processes. Such as:
 - managers installing and implementing a robust control system, so that only valid claims are processed and paid
 - managers performing checks on the application of their control system, to ensure that these controls are rigorously applied

- managers reporting on the outcome of their testing, so that good practice is continued, and weaknesses are identified
 - managers making recommendations to improve their control systems, so that there is continuous improvement of the systems
 - any quality assurance regime introduced by management to assess the level of compliance with the required control framework
 - Internal Audit (as the organisation's control experts) testing the control environment, reporting on their findings and making recommendations on how to improve the control system, thereby spreading good practice.
10. For the **House of Commons and its Members** (and ultimately the public) the assurance comes from the assertions by the House Authorities and External Audit's independent confirmation of those assertions, as appropriate. This confirmation is provided by the Audit Opinion.
11. It should be noted that this assurance can only be given, if the underlying records and systems are adequate. Otherwise the External Auditor might have to qualify his audit opinion, as for any organisation subject to audit.

Who currently provides assurance?

12. Members take responsibility for the validity of their claim, evidenced by their signature.
13. Once a claim is received assurance over the processing and accounting by the House Authorities is secured through the controls over payments of allowances, put in place by the House of Commons Department of Resources; Internal Audit work on Members' allowances; and the External Audit of the Members Estimate Resource Accounts, which includes the payments for Members' Allowances.

How is the assurance under the current arrangements different to that provided elsewhere?

14. There is no statutory requirement for an audit of the Members Estimate Resource Account, so the audit of the financial statements is, by agreement between the House of Commons and the Comptroller and Auditor General, on terms set by the House. They set the scope of the engagement based on their assurance needs.

15. Members are responsible for identifying, claiming and certifying their own expenditure, and thus the House does not seek further assurance, beyond that implicit in the Member's signature on each claim. This limitation in the assurance is recognised in both the Statement of Internal Control signed by the House of Commons' Accounting Officer, and the Comptroller and Auditor General's Audit Opinion.

16. The Audit Opinion states that:

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

17. One of the consequences of this limitation is that adequate documentation is not always available, to support claims, or the documentation is not sufficient to provide either the House Authorities or the auditors with the assurance they need. If this limitation was removed, the House Authorities, as part of the new framework of rules, could require Members to provide sufficient evidence that their claims were in accordance with the framework of rules governing them. This evidence would provide internal assurance to the House Authorities, as well as providing the auditors with the evidence required to give assurance externally.

What steps can be taken to identify a new system of assurances, which is workable, in line with practice elsewhere and able to command public respect?

18. Improved assurance to the House of Commons and its Members needs to be achieved in two ways. Firstly, by strengthening and clarifying the rules and guidance as to what are acceptable expenses for MPs and by enhancing the framework of controls exercised by the House Authorities to ensure compliance with these rules.
19. Secondly, by enhancing the scope of the work undertaken by Internal Audit and External Audit, in effect allowing the House Authorities, and Internal and External Auditors to look behind the Member's signature. Without this change, any improvements to controls would not provide more assurance than the current arrangements, as those checking the application of controls would not be able to look at the evidence, to support the assertion that the claims processed are in accordance with the rules set down by the House. They would not, therefore, be able to give the greater assurance which the MEC is seeking.

How might such assurance be provided to the House, and to the public under a new regime?

Option 1: Expansion in the scope of the External Audit of the House of Commons Members Estimate Resource Account

20. The establishment of clearer rules and a better framework of internal control, together with the decision to require receipts for items of expenditure claimed over £25, would enable the House to remove the current limitation on the scope of the Comptroller and Auditor General's audit engagement. This would put the House of Commons Members Estimate Resource Account on a basis that is consistent with the audit that is applied by the Comptroller and Auditor General to other bodies in receipt of public funds. (See Annex A, Option 1 for illustration).
21. As part of this audit, we would test a sample of allowance transactions to ensure that evidence was available to support the validity of the claim, and also to check that that transaction had been processed in accordance with the framework of rules. To facilitate this, the population of transactions is stratified by allowance. This ensures grouping of similar transaction types. Conclusions about this representative sample can then be justifiably applied to the whole population. This enables conclusions to be drawn about the allowances accounted for in the financial statements.

Impact of an Expansion in the scope of the External Audit of the House of Commons Members Estimate Resource Account

22. As a result of expanding the scope of our External Audit, we would expect to carry out more work, testing the evidence that would be available under the new framework of rules governing allowances. Provided sufficient records were held by the House Authorities, we would expect this audit to take place in the Department of Resources, at the House of Commons. This would have some impact on the notional audit fee, depending upon the quality of the systems introduced, and the effectiveness of their implementation by the House Authorities.

Option 2: An assurance around the arrangements put in place by Members to manage their claims, either as a group or as individual Members

23. In January 2008, the Senior Salaries Review Body¹⁸ recommended that the House of Commons request the National Audit Office to audit the expenses of a representative sample of MPs each year. To be of value, we believe that any such process would need to assess both the system of control by which Members administer themselves, as well as to audit individual transactions. One way to approach such an engagement would be to provide assurance around the arrangements put in place by Members to manage their claims.
24. Many professions e.g. lawyers, accountants, surveyors etc have in place arrangements to ensure that firms of professionals and individual practitioners comply with the framework of rules and regulations set out in their professional standards. This is commonly known as practice assurance.
25. Practice assurance takes many forms ranging from a rigorous compliance check, leading to disciplinary action against those who have seriously transgressed the rules, to arrangements geared to spreading and developing best practice and upholding of standards amongst the Membership. Most practice assurance regimes embody elements from both.

¹⁸ Review Body on Senior Salaries, Report No 64, Review of parliamentary pay, pensions and allowances 2007 (Recommendation 18, Paragraph 5.5).

26. In most instances the practice assurance is undertaken by a dedicated independent team, who provide three types of report:
- a regular global view of the general level of adherence of Members to the framework of rules and regulations
 - reports to the Members themselves on gaps in their practices and how they might be improved
 - reports to the relevant disciplinary body within their profession.
27. This model has a number of attractions and the approach could be flexed at the discretion of the House. As well as inspection, professional institutes support practice assurance by providing guidance on the day to day running of a business in a highly regulated environment. By analogy this might work in the House of Commons through providing guidance to members on human resources issues; health and safety matters; accounting and record keeping etc.
28. For the House such a regime would provide assurance over the claims process. The approach would be to cover all Members over a five year period. It would involve examination of the expense claims of an individual Member for 12 months prior to the inspection date. For the Members such a regime would provide a source of reassurance to them and a source of good practice and advice on how they could run their office in compliance with the framework of rules.
29. Assurance to the public would come from the global reports on the regime, and from an awareness of the existence of the framework of rules, with a process to escalate serious matters appropriately. It is likely that the public wish for assurance would be better met by the rigorous compliance end of the spectrum.

Impact of an assurance around the arrangements put in place by Members to manage their claims, either as a group or as individual Members

30. Members' systems are less likely to be stable or well documented than in the commercial world, given differences in Members' approach to their work as a Member of Parliament; the different needs and concerns of their constituents; and the varied skills and experience of their staff. For this reason, the Senior Salaries Review Body¹⁹ recommendation that the House of Commons request the National Audit Office to audit the expenses of a representative sample of MPs each year, would be difficult to implement successfully. Drawing valid

¹⁹ Review Body on Senior Salaries Report No. 64 Review of parliamentary pay, pensions and allowances 2007 (Recommendation 18, Paragraph 5.5).

conclusions from a sample taken from a population of Members, whose patterns of allowance claims and related supporting systems were not homogeneous, would be problematic.

31. In order to draw valid conclusions, a large sample would need to be tested. The cost would be several times more than the expansion of the external audit, and would also be more intrusive for Members. Until all Members had been visited, the assurance to the public might have to be limited to those tested. It would also be taking assurance a step further than is the normal practice for other bodies in receipt of public funds. (See Annex A, Option 2 for illustration).

Conclusion and Recommendations

32. Assurance can only be provided if:
 - there are clear rules and guidance on the rules
 - there is a system of controls to ensure compliance with those rules and
 - the assurance process goes behind the Member's signature.
 - The House Authorities should publish their enhanced rules, to ensure the transparency necessary for assurance.
33. While Option 2 has some attractions, we do not think that it is the best or most practical way forward. In order to provide the required level of assurance, it is likely that the programme of Member assurance visits would be a substantial, intrusive and costly exercise (several times the cost of the audit of the financial statements). Additionally, the assurance gained from this quality assurance scheme would be limited, until all Members had been visited, and it might require several cycles of visits before valid assurance could be given. The value for money of such an assurance regime is questionable.
34. Our advice, therefore, would be to expand the scope of the external audit. An expansion of the scope of the external audit of the House of Commons Members Estimate Resource account would put the audit on a basis that is consistent with the audit that is applied by the Comptroller and Auditor General to other bodies in receipt of public funds. This would mean that the public and the House had the same assurance as they receive for those other bodies.

Tim Burr
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