House of Commons Administration Estimate Audit and Risk Assurance Committee and Members Estimate Audit Committee

Minutes of the meeting held on Thursday 28th October 2021

[*Text in italics will not be included in the published minutes*]

Members of the Committee present:

Shrinivas Honap (Chair)	Frances Done

In attendance for items 2-12:
Dr John Benger, Clerk of the House and Accounting Officer
Mostaque Ahmed, Finance Director and Managing Director, Finance, Portfolio and Performance
Marianne Cwynarski, Director General (Operations)
Dr Richard Stammers, Head of Internal Audit and Risk
John Owen, Director of Strategic Business Resilience
Mary Savvides, Corporate Risk Management Facilitator
Hannah Bryce, Committee Secretary
Ioana Stefu, National Audit Office
Marc Nuttall, National Audit Office

In attendance for item 7:
Mandy Eddolls, Managing Director of People and Culture Team, Markos Koumatidis, HR Director

Apologies
Harriett Baldwin, Sir Charles Walker, Clive Betts

1. Matters to be raised before officials invited in

1.1. The Committee had a private discussion about the agenda and issues arising from the previous meeting.

2. Minutes, matters arising and interests

2.1. The minutes of the July meeting were agreed.

2.2. One new external member joined the Audit Committee as Chair: Shrinivas Honap. Shrinivas declared that he serves as:

- Low Level Waste Repository (LLWR), Non-Executive & Audit Chair, 05/20-04/23
- Civil Service Pensions Board, Non-Executive, 04/21-03/25
- UK Space Agency, Non-Executive & Audit Chair, 06/21-05/25
- Financial Ombudsman, Non-Executive Director, 10/21-09/24

- House of Commons Commission, External Member, 10/21-09/24
- UK Atomic Energy Authority (UKAEA), Non-Executive & Audit Chair, 04/18-03/22
- Corps Security Limited, Non-Executive & Audit Chair, 11/21-10/24
- Saiaum Accounting Ltd, Director, No end date
- Panel Roles –
- Pensions Determination Panel, Panel Member, 01/21-04/24 (no minimum commitment)
- Standards Committee on IPSA(SCIPSA), Lay Member, 01/18-12/21 (4 days pa) (This role has now ended)

2.3. It was noted that as no MP member could attend the meeting it was inquorate and that any formal decisions would therefore be made by correspondence following the meeting.

3. Finance, Portfolio and Performance Team – Priorities and risks

3.1 Mostaque Ahmed, Managing Director of the Finance Portfolio and Performance (FPP) Team, presented his paper to the Audit Committee on current risks and challenges facing FPP and on the finance principal risk.

3.2 Shrinivas Honap raised a question about whether the finance team had all the skill requirements it needs, whether there was a need for enhanced skills to fill any gaps, and if so, how is this being addressed. Mostaque noted that they have a wide range of skills on the team with good links to the finance profession. He acknowledged that the skills in the Members Hub were specialised and could present a vulnerability if staff left. He noted that there is procurement expertise within the procurement team but that the associated skills around management of contracts needed to be represented more broadly within the organisation. He noted that the Enterprise Portfolio Management Office (EPMO) team is currently not resourced to full capacity and there has been an issue about high turnover in a small team, although that also presents an opportunity to review skill sets including for example someone who can lead on training Senior Responsible Officers (SROs). Mostaque confirmed that he was comfortable these resource gaps were being largely addressed but noted that in the case of procurement it sits within the House of Lords and discussions are taking place around the market competitiveness of the pay and reward offer for procurement staff in light of some recent challenges in retaining staff and filling posts.

3.3 With regards to the finance principal risk Shrinivas Honap asked whether the Finance Committee should have independent finance experts sitting on the Committee. John Benger noted that it would require a change of Standing Orders to alter the membership or to extend its powers to appoint specialist advisers. He suggested that if the Committee wished to do that they could raise it with the Leader of the House and Shrin noted that approach.

3.4 Frances Done raised concerns around basic internal finance controls, citing the staff expenses audit as an example of these failing. Mostaque noted that in that example it is the payroll team who have oversight but that it is the second line of defence where there have been weaknesses and inconsistency at the team level which will need to be remedied going forward. Shrin Honap also questioned how the risks related to Value for Money and those related to R&R are aligned. With regards to Value for Money he has requested to see the top 15 contracts and advised that the finance review should start its review with contracts as an initial focus.

4. Finance Review

4.1 Marianne Cwynarski, Director General (Operations), introduced the outline of the independent finance review. She noted that she had approached Lord Morse to lead the review to ensure that the review had an independent, credible lead. He will be supported in his work by a team in the House of Commons which includes financial expertise, and he may also bring his own specialists if required. The review planned to report before the Summer but Shrinivas Honap suggested that it approach it work iteratively and report findings on an ongoing basis.

4.2 Frances Done asked whether the review could not be done internally as it was using a lot of internal resources. Shrinivas however acknowledged that having an independent lead could give the results more credibility but noted that there would be challenges particularly with the scope of the review. He suggested incremental deliverables that started with contract management, then considered processes and lastly considered the cultural elements of change. He expressed his wish for the majority of recommendations to have been made and implemented within this financial year. He also noted that the results of the finance review should mitigate some of the concerns highlighted in the finance risk and that progress should be tracked. He also noted that it would be useful in the next financial year to consider service definitions to ensure the right level of service is being provided. Both Shrin and Frances noted that financial delegations did not need to be part of the review as this topic has already been considered by the Audit Committee and Finance Committee.

5. Risk approach and update

5.1 John Owen introduced two papers on risk to the Audit Committee. He noted that the Principal Risk Register is regularly updated but that it could be improved in effectiveness by more closely linking it with the business planning process. He noted that a new position of Director of Strategy and Business Planning had been appointed and that they were working together to help marry up these two strands of work. He also acknowledged that 16 principal risks is a large number so he would be reviewing this along with other issues such as the interaction between the Principal Risk register and team level and sub board level risks and how these can be escalated to the Board. John Owen is in the process of benchmarking and comparing the House of Commons approach with other public sector bodies.

5.2 Shrinivas Honap welcomed the paper and the approach which he is broadly supportive of. He shared his observation that the risks had to be more clearly defined and measurable. He noted that of the 16 risks listed some of them were difficult to measure, such as cultural dissonance. He suggested that over the next few months these risks should be broken down so that it was clear what the risk is and what controls are in place to mitigate that risk. He noted that currently the risks are phrased too broadly, and he suggested that the CEB should be providing a clear definition of their risk appetite to also help frame the risk register. He requested further information to be provided that shows how the

House of Commons risk register interacts with the House of Lords, Sponsor Body and Delivery Authority in order to ensure that risks do not fall through the cracks. He also wants to understand how the Audit Committee and Finance Committee interact in order to ensure that the Audit Committee is providing the right advice. He asked that technical debt be added to the risk register with the controls and mitigations used to manage this risk.

5.3 Frances Done noted that she believed it key to the governance of risk that the House of Commons Commission sign off the principal risks. Shrinivas Honap agreed that it was important the Commission understood the level of risk particularly of projects such as R&R where the relationship between the four organisations in managing risk is key and will become more and more important as the R&R programme gets underway.

6. NAO Update

6.1 Ioana Stefu presented the NAO's Management Letter on the 2020-21 financial statement audit. She noted that none of the findings impacted on the audit opinion and the audit had been signed off. She highlighted that most recommendations are related to the significant risks covered throughout the audit, as those are the areas with most judgement and estimation. She drew the Committee's attention to the one high level finding regarding the capitalisation of assets. She noted all the findings would be followed up on as part of the 2021-22 audit round.

6.2 Shrinivas Honap recommended that the approach of capitalising all assets over £1,000 should be stopped as it is a very low threshold which leads to unnecessarily complicated processes, the threshold and approach should be reviewed. In terms of the valuation of property assets, he thought that we should look at comprehensive valuations at agreed intervals rather than year on year work. Frances Done asked when the financial delegations framework would go to the House of Commons Commission as it is for them to make the final decisions on delegations. Mostaque Ahmed explained that the Chair of the Finance Committee had wanted some time to consider the impact of these changes on the Committee's work and the potential delays that could ensue if the volume of work sharply increases. Shrinivas Honap requested that the Chair of the Finance Committee write to him regarding any concerns so that these can be raised at the Commission.

7. Internal Audit Progress Report

7.1 Richard Stammers presented his update on the internal audit plan. He highlighted that he had completed the recruitment of an auditor to his team. He also noted that there is a general trend towards more Limited ratings in audits. Limited audits are expected to report on audits of contractors, stock holding, and procurement. Richard noted that other organisations are seeing similar trends at the moment possibly as a result of the pandemic and that the control framework is quite rigid and not good at responding to these changes.

7.2 Shrinivas Honap said his main interest is in the management response and how much can be done within the financial year. He noted that it looked challenging to complete the audit plan this year and that if this is the case then audits that can be moved to next year should be. Shrinivas also noted that he was surprised by the Moderate rating given to the Elizabeth Tower audit but understood the rationale, that even though there was a big overspend it was the adherence to the processes that were audited. Frances Done requested that the earlier audit of Elizabeth Tower be shared with the Committee. Shrinivas Honap requested a fraud propensity map that sets out where the organisation is most vulnerable to fraud.

8. Staff Expenses Audit

8.1 Richard Stammers noted the key issues raised in the Staff Expenses Audit which received a Limited opinion. He said there were issues around processes, operational controls and monitoring and that application of the policy varied from team to team. Mandy Eddolls, Managing Director of People and Culture Team, and Markos Koumaditis, HR Director, who manage staff expenses acknowledged that there had been failings but that they expect the systems to be much more robust next year with the introduction of the new HR system which is due in January 2022. This will require a receipt to process any expense so will eliminate the room for error that led to the issues highlighted in this audit.

8.2 Shrinivas Honap noted that the key outcome of this audit will be the actions taken. He suggested that Markos make contact with IPSA (Independent Parliamentary Standards Authority) to learn from their experience of introducing a new expenses system. He noted that the system must be the right one, that is should recognise exceptions, and that this would be more important than getting a system in quickly. Markos acknowledged that but noted the system was a more general HR system. He also noted that the policy covering expenses would be considered again, revised if necessary and work would be done to ensure that staff are aware and understand the policy.

8.3 Frances Done noted that it was important to learn from this experience the impact on the control environment. She noted that initially organisations felt that there was little impact from the changes to ways of working but that now it is becoming evident that some processes have been adversely affected. The CEB will need to think about what needs to change to ensure similar processes are not impacted in the same way. Shrinivas agreed and suggested that the learnings from this audit were shared more widely in the organisation and Richard Stammers undertook to do that.

9. Report from the Committee

Nothing to report.

10. AOB

10.1 Shrinivas Honap asked that going forward there would be standing items on the Audit Committee agenda to update members on the progress towards a risk framework and on progress of the finance review, in addition to the internal audit update (which is already a standing item.)