


# Annual Review of Assurance

2018-19

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# **Independent Parliamentary Standards Authority**

## **Annual Review of Assurance 2018-19**

19 December 2019

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## Executive summary

This is IPSA's third Annual Review of Assurance. We began publishing this document in 2017 as a way of taking stock of IPSA's regulatory work over the previous year and of fulfilling our strategic objective to assure the public about how taxpayers' money is being spent by MPs.

This document summarises the activity we undertook during the 2018-19 financial year to ensure that claims for MPs' business costs and expenses were appropriately evidenced and compliant with our rules. This includes our validation processes, where we check claims individually either before or after payment; and our thematic assurance work, which examines specific areas of expenditure in depth.

This document comprises five sections. **Section 1** provides an introduction to IPSA's regulatory role. **Section 2** describes our approach to validation and assurance. In **Section 3**, we provide information on the pre-payment validation activity which took place during 2018-19. Likewise, **Section 4** provides information on post-payment validation during the year. Through these processes we can be confident that the vast majority of claims submitted by MPs are legitimate and compliant with the Scheme of MPs' Business Costs and Expenses; and that, where we discover ineligible claims that have to be repaid, they are nearly always a result of misunderstanding or administrative error. Lastly, **Section 5** summarises the findings from two thematic assurance reviews that were carried out during 2018-19. We explain why we chose to look at these areas of expenditure, what we found and what we have done in response to the findings.

# 1 Introduction

1. The Independent Parliamentary Standards Authority (IPSA) is the regulator of business costs and expenses for Members of Parliament in the UK. Our founding legislation gives us a dual role: to ensure that MPs are resourced appropriately to carry out their parliamentary functions; and to ensure that MPs' use of taxpayers' money is transparent and well regulated.
2. To do this, we established the Scheme of MPs' Business Costs and Expenses<sup>1</sup> ('the Scheme'), which sets out rules for what MPs can and cannot claim. The Scheme is underpinned by Fundamental Principles which apply to MPs, in making claims, and to IPSA, in administering them. These principles state that MPs can only claim for costs that are parliamentary; must act with probity; must seek value for money in their claims; and are accountable for what they spend. Meanwhile, they also state that IPSA must treat MPs fairly; operate transparently; and regulate efficiently, cost effectively and proportionately.
3. In order to assess the level of assurance that IPSA's Board and its Chief Executive, as Accounting Officer, can have that money paid to MPs through IPSA's accounts is spent properly, we have processes in place to check the compliance of MPs' claims with the Scheme – both with the specific rules and with the Fundamental Principles.
4. In addition, this work enables us to seek continuous improvement in the way we support MPs and administer their claims. A better understanding of MPs' spending patterns and financial requirements also informs IPSA's future policy making.
5. For the purposes of this document, we have used the term 'assurance' broadly to include both validation, meaning the checking of individual claims, and thematic assurance work, meaning the analysis of expenditure across all MPs to establish patterns and make an assessment of compliance.

## What this document covers

6. This document covers all of the assurance work which took place in the 2018-19 financial year. This covers three types of activity:
  - Pre-payment validation;
  - Post-payment validation; and
  - Thematic assurance reviews.
7. We have provided summaries of the work undertaken and, where appropriate, we have also explained how our findings from these activities have been used. Some have led to further investigation of specific claims or areas of expenditure. In a few cases, we have recovered money from MPs which was incorrectly claimed and paid. In all cases, we seek to use assurance activities to support the continuous improvement of IPSA's processes and rules.

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<sup>1</sup> The Scheme can be viewed online on our website: <http://www.theipsa.org.uk/publications/scheme-of-mps-business-costs-expenses/>

8. This year, we have also included an Annex with more information about the claims for business costs and expenses we received and processed during the year. This provides further context for the assurance work and other regulatory activity carried out by IPSA.

## 2 Overview of assurance at IPSA

9. IPSA processes between 150,000 and 190,000 claims for MPs' business costs and expenses each financial year – an average of up to 15,000 per month – with an annual total value of £30-35 million<sup>2</sup>. Because of our responsibility for assuring the proper use of taxpayers' money, we require claims to be accompanied by sufficient information and appropriately evidenced so that we can check that they comply with the rules set out in the Scheme.
10. We know from our experience since 2010 that the vast majority of MPs' claims are for routine accommodation, office and travel costs and are compliant with the Scheme rules. Over the years, we have adjusted our regulatory processes to reflect the relatively low risk associated with the majority of claims, which do not require excessive amounts of inspection before payment. We use an assessment of the risk associated with different types of claims to inform our processes, which allows us to maintain efficiency and reimburse MPs and suppliers as quickly as possible.
11. There are three tiers of assurance processes, covering pre-payment validation; post-payment validation; and thematic reviews of expenditure across all MPs, focusing on a specific theme or area of expenditure. This approach allows us to be targeted and risk-based at the beginning of the process, whilst also being able to identify unusual claiming patterns or outliers which might signal the need for a more detailed examination.
12. The robustness of the three-tiered assurance process means that we have a high level of confidence that taxpayers' money is being paid appropriately to MPs to support their parliamentary work. At the same time, the risk-based approach allows us to focus on our role in supporting MPs, by providing advice and guidance and ensuring that payments are made efficiently.
13. In addition, in accordance with the Parliamentary Standards Act 2009, IPSA is also subject to external audits by the National Audit Office, who carry out a substantive audit of IPSA's financial statements. Meanwhile, a programme of internal audits throughout the year assesses the effectiveness of financial and other controls in place. More information is available from IPSA's Annual Report and Accounts.

### Pre-payment validation

14. The first tier of validation takes place before payment. At this stage a sample of claims are individually checked. The sample is made up of a mix of randomly selected claims and certain claim types that have been identified as priority risks. All other claims are paid upon receipt of evidence and checked in the subsequent validation processes described below.
15. **Section 3** provides a summary of the pre-payment validation activity which took place in 2018-19.

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<sup>2</sup> This includes claims for reimbursement and direct payments to suppliers only; it does not include other business costs such as the salaries of MPs' staff members, which are checked through other processes.

## Post-payment validation

16. Second-level validation takes place after payment. It is a retrospective exercise which examines all of an MP's claims at least annually, or more frequently where necessary. The benefit of this post-payment validation is that it enables IPSA to look at an MP's claims in context, meaning that we can identify any unusual patterns, outliers or repeated errors which would not be seen through pre-payment validation of individual claims. It also means that we can efficiently pay the majority of claims without burdensome pre-payment checks. Where the validators identify claims which should not have been paid, the MP is asked to repay the money.
17. **Section 4** provides a summary of post-payment validation activity in 2018-19, including the outcomes from this work.

## Claim reviews

18. Claim reviews are not strictly part of the three-tiered approach, as they take place on an ad hoc basis (normally at the request of the MP). They are, however, a crucial way of checking that the decisions made during the first and second validation tiers are sound, consistent and in accordance with the Scheme rules.
19. Where a claim, or part of a claim, is determined as ineligible in either pre-payment validation or post-payment validation, the MP may request a review of this decision. The review is carried out by IPSA's assurance team, who are separate from the team responsible for conducting the earlier validation processes, in order to provide a degree of independence.
20. If the claim review determines that IPSA's decision not to pay a claim (or to recover money that has been paid) was due to an error or an incorrect application of Scheme rules, then the MP's claim is eligible and will be paid. On the other hand, the review may uphold IPSA's original decision. In these cases, the MP can appeal to the Compliance Officer<sup>3</sup> if they choose.

## Thematic reviews

21. The third tier is the programme of thematic assurance reviews which are carried out by IPSA's assurance team. Thematic reviews examine aggregate spending by all MPs in a specific category or range of categories. Any significant outliers or unusual patterns will be identified and followed up, for example by contacting the MPs in question to seek assurance that the rules were well understood and that the claims were compliant.
22. In a small number of cases, the findings from thematic reviews have led to repayment of costs by MPs; and in rare cases, we have referred claims to the Compliance Officer (for example, where we believe there may have been intentional abuse of the rules).

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<sup>3</sup> The Compliance Officer for the IPSA is an independent statutory office holder. They can conduct an investigation if they have reason to believe an MP may have been paid an amount that should not have been allowed; or can at the request of an MP review a decision by IPSA to refuse reimbursement for a claim. The Compliance Officer reports to, but is not directed by, IPSA's Board and is wholly independent of IPSA's executive.



23. More often, we use the understanding and insight gained through thematic reviews to inform other areas of our work. For example, where a review has revealed that our operational processes have not been effective in implementing rules or in supporting MPs to comply with the rules, we consider whether adjustments are needed to improve them. Likewise, where a review has revealed that certain rules are poorly understood by MPs, we have looked to improve our communication of the rules concerned.
24. The topics for thematic assurance reviews are agreed each year by IPSA's Assurance Group of senior managers. The Group considers the perceived risk of error or non-compliance in certain areas of spend and feedback from operational teams within IPSA, MPs and other stakeholders. Significant events, such as elections and referendums, can carry a unique set of risks or challenges, and therefore have often been the subject of thematic reviews.
25. The reviews conducted during 2018-19 are each described in more detail in **Section 5**, including the actions we have taken as a result of the findings. The reports of the thematic assurance reviews on subletting of constituency offices and on claims for professional services have been published in full on our website<sup>4</sup>.

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<sup>4</sup> <http://www.theipsa.org.uk/publications/assurance-reports/>.

### 3 Pre-payment validation in 2018-19

26. We processed 189,096 claim lines for MPs' business costs and expenses in 2018-19. About a fifth of these (39,158) related to payments made by IPSA directly to a supplier (e.g. for stationery, rent and pooled services). The rest related to costs which MPs had paid and for which they later claimed reimbursement, or for which they used their IPSA payment card. (These figures do not include payments that were made for the salaries of MPs' staff members.)
27. In line with our risk-based pre-payment validation process, around 74% of the reimbursement claims<sup>5</sup> we received were paid following the receipt of evidence without individual validation. We say that these lines have been 'streamlined' and they are examined later in post-payment validation or thematic reviews.
28. The remaining 26% formed the sample selected for individual validation. These were a combination of claims randomly selected each day and those which fall into categories that are considered at higher risk of error.
29. For each of these, a validator in IPSA's operations team checked each line of each claim to determine whether:
  - the MP had provided sufficient information;
  - the cost was assigned to the correct expense type; and
  - the evidence provided matched the information in the claim and the amount.
30. Of the 47,062 lines that were individually validated, a total of only 354 lines (0.8%) were not paid.
31. The average time it took in 2018-19 for IPSA to reimburse MPs' claims, including those which are individually validated, is 6.5 days from the point at which we receive the receipt or invoice. This was quicker than the performance target of eight days.

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<sup>5</sup> We also put payments made by MPs using the IPSA payment card and travel purchases from a direct supplier in this category.

## 4 Post-payment validation in 2018-19

32. The process for post-payment validation was amended in 2018-19 to make better use of information about risks. In most cases, checks occur annually, taking into consideration all of an MP's claims during that period in order to identify trends, patterns, outliers and possible errors, such as duplicate claims. If a specific risk is identified, these checks may take place more frequently, on a quarterly basis.
33. There were 1,314 post-payment validation reviews conducted in relation to claims made in the 2018-19 year: 400 quarterly checks and 914 annual checks.
34. Post-payment validation in 2018-19 led to the following further actions:
  - **Corrections to expense type:** There were 1,261 items identified through reviews as being coded by MPs to the incorrect expense type, although they were legitimate claims. We have made the necessary corrections to the online claims system.
  - **Further investigation:** There were 1,015 items flagged for further investigation, e.g. a need to request additional evidence. We contacted the MPs concerned in all cases.
  - **Repayments:** There were 129 claims identified through post-payment validation for repayment by MPs, with a total value of £17,360.76. This represents about 0.07% of all claims submitted in the year. The figures for comparison from 2017-18 were 288 claims repaid with a total value of £37,017.

## 5 Thematic reviews in 2018-19

35. There are two thematic reviews covered in this year's Annual Review of Assurance. In one, we examined how MPs who sublet part of their IPSA-funded constituency offices were complying with the requirements in the Scheme. We also looked at claims made for professional services, which MPs can engage to supplement the work of their staff members, or to provide a specialist service or advice. Both reviews also covered IPSA's guidance and internal processes for supporting and checking compliance with the relevant requirements.
36. This section provides summaries of each of these pieces of work, including why the topic was examined; a summary of findings; and where relevant, the actions taken as a result.

### Subletting of constituency offices

37. The Scheme allows MPs to permit another person or organisation to use their IPSA-funded constituency office, provided they charge a fee which reflects the appropriate proportion of rent and other costs. This is in recognition of the fact that this may be more cost-effective where the office includes space which is not needed by the MP or their staff, and it can produce a saving for the taxpayer. This is sometimes an ad hoc arrangement, such as hiring out meeting rooms; but in other cases, the third-party person or organisation sublets part of the office on an ongoing basis. The fee must be remitted to IPSA.

#### *Why did we look at this topic?*

38. The Scheme requires MPs who sublet their constituency offices to repay any rental income, as well as an appropriate proportion of other costs, to IPSA. Apart from this, however, there is no detailed guidance available to MPs who wish to sublet their office. At the time of the review, there was no formal process for MPs to inform IPSA that they were entering into a subletting arrangement or how much rental income they would be repaying; and as a result, there was little oversight of how many MPs were subletting their IPSA-funded office or whether these arrangements were in keeping with the requirements of the Scheme.
39. We recognised that, without proper checks in place, there was a risk that MPs could allow a third party to use their IPSA-funded office without making any repayments. We do not have any practical way of monitoring this across 650 constituencies, so IPSA relies on MPs to inform us about their arrangements and calculate the appropriate fee charged to the third party. It is the responsibility of the MP to ensure the repayment is fair and reflective of use.
40. In addition, MPs are expected to determine for themselves the appropriate proportion of rent and other costs to charge, and no formal evaluation of the space is required. There is therefore a potential risk that, where MPs sublet to a political party association or any other group to which they are connected, they could provide a benefit to that third party by charging a relatively low rent.

### *What did we find?*

41. The review examined data on repayments from MPs which had been classed as 'constituency office rental income' in order to establish which MPs had subletting arrangements in place. We contacted MPs believed to be subletting and asked them to complete a short questionnaire.
42. We found that there were inaccuracies in IPSA's records regarding MPs' subletting arrangements. Between January 2012 and November 2017, IPSA received approximately £145,000 in repayments under the expense type 'constituency office rental income'; but more than half of these were not related to subletting repayments at all. Most actually related instead to repayments made for the use of IPSA-funded offices or equipment for campaigning purposes during a General Election period<sup>6</sup>.
43. Out of the 33 MPs believed to have sublet their offices, only 25 were found to have actually done so. At the time of the review, 21 of them were still subletting. Seven MPs clarified that none of their repayments related to subletting rental income, and had therefore been misclassified. One other MP shared their office with the local party, who make ad hoc payments for any use of the office over their agreed share (which we do not classify as a subletting arrangement).
44. Most MPs who had sublet their offices had arrangements directly with the local political party or a party association. In one instance, office space was sublet to another office holder of the same party, and in another, the subtenant was the staff member of an MP who also provided professional services to a number of other MPs.
45. Some MPs made repayments for use of the office in advance of the relevant period; while others make these repayments in arrears. Due to the lack of formal processes, the review found that there was no way to ensure timely repayments. In addition, we noted that it was difficult to determine whether MPs included a proportion of other costs, such as utilities, in the fee charged to the subtenant and repaid to IPSA. In several cases, MPs provided explicit information about the proportion of utilities included, but in others they did not.

#### **Office subletting – Key facts**

21 MPs were subletting part of their office at the time of the review; most of these arrangements were with the local party or a party association.

As a result of the review, we recovered £5,100 of subletting income from 5 MPs who had missed the repayments in error.

### *How have we responded?*

46. The review made nine recommendations which IPSA is taking forward.

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<sup>6</sup> IPSA funding can only be used for parliamentary purposes, and cannot be used to support party political or campaigning activity. MPs who choose to use IPSA-funded offices or equipment for campaigning before a General Election must repay the relevant proportion.

47. We contacted seven MPs regarding inconsistencies in their repayments, such as overall repayments that appeared too low or repayments of widely varying amounts. Two MPs clarified that repayments previously thought to have been missed had in fact been sent to IPSA but had not been recorded correctly. Five MPs confirmed that repayments had been missed in error and repaid £5,100 to IPSA.<sup>7</sup>
48. Since the review, we have also developed a more formalised process for registering and monitoring subletting arrangements. This includes collecting information about who is subletting the space; what proportion of the property is being sublet; what rental fee is being charged; and how often repayments will be made to IPSA. We are also now asking the MP to provide a copy of the agreement between them and the third party. This information will be reviewed quarterly to check that the appropriate repayments are being made.
49. We are considering whether to amend the Scheme to require that MPs who wish to sublet part of their IPSA-funded office must have the repayment amount determined by a qualified third party to ensure it reflects an appropriate market rate. Such a change would be subject to public consultation.
50. A further review of utilities costs – including how these are apportioned between an MP and a third party in a subletting arrangement – will be conducted in the coming year.

### **Claims for professional services**

51. MPs can use their staffing or office costs budget to claim for professional services in support of their parliamentary work. For some MPs, these services are used in lieu of employing staff; while for others, professional services can provide additional skills, capacity or expertise to that provided by their staff members.

#### *Why did we look at this topic?*

52. MPs have reasonable discretion over their claims, and that extends to the professional services they wish to engage. However, because the category 'professional services' can encompass a relatively wide variety of costs, these claims can be more difficult to assess in terms of compliance with the rules.
53. An internal review conducted by IPSA in 2014 noted a number of issues with professional services claims at the time. First, it was unclear whether in some cases the relationship between an MP and an individual providing a professional service should more properly have been that of an employment relationship. In addition, we found that some invoices provided as evidence for professional services claims lacked the detail required to provide full assurance that the cost was exclusively parliamentary in nature.

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<sup>7</sup> IPSA responded to a Freedom of Information Request about these repayments in July 2019. The response can be found here: <http://www.theipsa.org.uk/publications/freedom-of-information/>

54. Noting the potential risks in this area of expenditure and the findings of our internal review, we decided to undertake a thematic assurance review of professional services claims during 2018-19.

#### *What did we find?*

55. IPSA reimburses MPs over £1 million a year for professional services claims. Commonly claimed professional services include media and communications support; office and administrative support; research services; and recruitment services.
56. The review looked at all professional services claims in the four financial years between 2014-15 and 2017-18. In addition, a random sample of 100 claims from each year was taken to assess in more detail, including the quality of information and evidence provided. MPs with particularly high professional service expenditure were examined further to establish the reasons for this. In some cases, this was because the MPs chose to engage professional services exclusively, instead of employing staff members.
57. MPs can choose whether to claim for professional services from their office costs budget or their staffing budget; this flexibility is intended to help MPs utilise their budgets efficiently. On average, 288 MPs made claims for professional services from the office costs budget each year, compared with 120 MPs making claims from the staffing budget. Claims made from the staffing budget tended to be higher in value individually; although MPs tended to claim more in total from their office cost budgets.

#### **Professional services – Key facts**

In 2017-18, IPSA reimbursed professional services claims worth about £1.15 million. Over the four-year review period, the total was £4.37 million.

Such costs can be claimed from the office costs budget or the staffing budget. On average, MPs claim more from their office costs budget.

Amounts claimed by individual MPs varied widely. Over the four-year review period, this ranged from £30 to £138,000.

Two-thirds (67%) of the invoices sampled by the review were considered inadequate.

58. We identified that a significant number of claims made under the professional service expense types should have been more appropriately claimed from other expense types – including advertising, constituency office cleaning, training and website design/production. This is likely due to the large number of and lack of clarity about expense types in IPSA's old online claims system which was in place before April 2019. The picture improved over time, and in 2017-18 only 5% of claims were found to have been claimed using an incorrect expense type.<sup>8</sup>

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<sup>8</sup> IPSA's new expenses system, IPSA Online, which was launched in April 2019 has far fewer expense types than the predecessor system. We expect this will improve clarity for MPs and reduce the instances of misallocated claims.

59. A key finding from the review was that much of the evidence provided to support claims for professional services over the review period – 67% of the invoices examined as part of the random sample – was inadequate. As stated above, this was a finding in the 2014 internal review as well. We noted that we had not previously issued MPs with specific guidance on invoicing, but for the purposes of the review, we used government guidance on invoicing as a benchmark and also considered the information required to assure ourselves that the services claimed for were compliant with the Scheme.
60. Most invoices assessed as being inadequate provided little detail about the work that had been completed on the MP's behalf. In some instances, claims were returned through the validation process and the MPs were asked to provide additional information or a replacement invoice; but this was done inconsistently, and in some cases the replacement evidence was still not detailed enough, using the criteria of the review, to provide assurance about the cost.
61. Analysis of the random sample of claims showed that a number of MPs were claiming for professional services which were provided by individuals or companies with close connections to the MP's political party. The review recognised that there is a higher potential risk that services provided by these individuals or organisations could include activity which is party-political and therefore outside of the Scheme rules. The risk is increased where invoices do not provide enough detail about the service provided.
62. Lastly, the review noted that in a small number of cases, individuals providing professional services could potentially be considered as 'employed' by the MP under HMRC guidelines. Again, this was a finding in 2014. A person's status of employment is determined in law based on the nature of the working relationship such as how much control the employer exercises over the individual's working arrangements. Ensuring the correct employment status is important because it has a bearing on tax and National Insurance liabilities.

#### *How have we responded?*

63. The review made four recommendations which IPSA is taking forward.
64. Based on the review findings, we have made changes to pre-payment validation processes to ensure that professional service claims are checked in detail, including the quality of the invoices provided. Where these are considered insufficient, the validation team is more consistent now in requesting more information.
65. We have also produced detailed guidance on the evidence that should be submitted with each type of claim. This is available for MPs and staff to view on the homepage of our new IPSA Online claims system.
66. The findings of the review did not suggest that professional services claims are an area of widespread noncompliance with the Scheme rules; but neither can we provide sufficient assurance in this area, due to the inadequate evidence submitted with claims. In light of the remaining risks, we have committed to conducting a further thematic review of this area in 2020-21, to assess whether progress has been made.

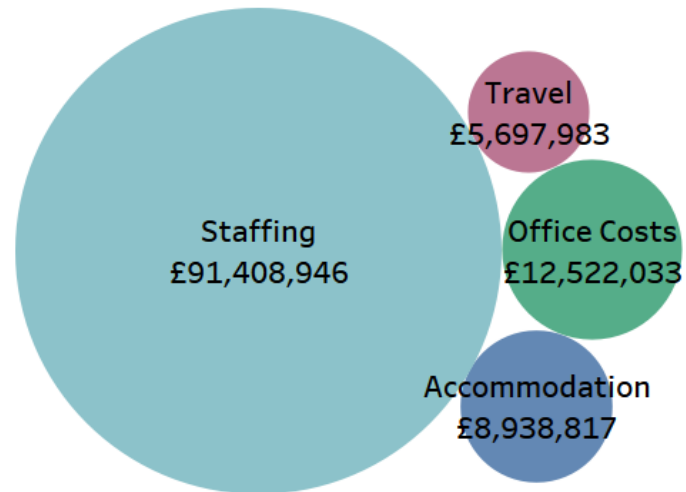


## 6 Conclusion

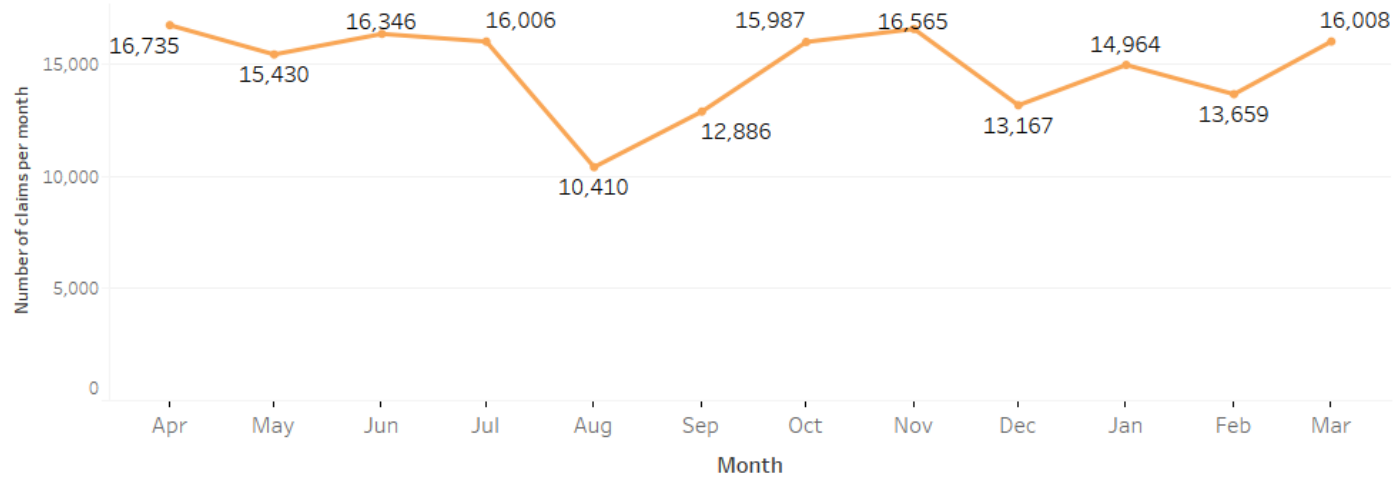
67. IPSA's validation and assurance work during 2018-19, as summarised in this document, indicates that overall there has been high compliance by MPs with the rules. However, it has also highlighted areas where better communication, improved guidance and more consistent use of enforcement tools are needed. Validation and assurance work are integral to our ability to make continuous improvements to IPSA's policies and operational processes.
68. In line with IPSA's corporate objective of becoming a more data-driven regulator, we are looking to use the data we hold in more sophisticated and effective ways. This is reflected in the changes which have been made to validation processes to better assess risk. In time, we anticipate that it will also result in other changes to allow IPSA to provide more accessible information and stronger assurance about how public money is spent by MPs.

## Annex

Expenditure by MPs and their offices, by category



Number of claims processed by IPSA



Amount paid by IPSA to MPs and their staff (excluding payroll costs)

