

# Public Accounts Commission

## Oral evidence: NAO Strategy 2018-19 to 2020-21

Tuesday 12 December 2017

Ordered by the House of Commons to be published on 12 December 2017.

Watch the meeting

Members present: Sir Edward Leigh (Chair); Mr Richard Bacon; Jack Brereton; Clive Efford; Julian Knight; Andrea Leadsom.

Richard Brown, Treasury Officer of Accounts, and James Fraser, Senior Policy Adviser, Accountability and Governance, HM Treasury, were in attendance.

Questions 1-70

### Witnesses

[1](#): Sir Amyas Morse, KCB, Comptroller and Auditor General, National Audit Office, Lord Bichard, Chair, National Audit Office, and Daniel Lambauer, Executive Leader, Strategy and Operations, National Audit Office.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]



## Examination of witnesses

Witnesses: Sir Amyas Morse KCB, Lord Bichard and Daniel Lambauer.

Q1 **Chair:** Good morning, Lord Bichard and Sir Amyas. How nice to see you. Welcome to the Public Accounts Commission's first meeting of this new Parliament. This morning we are discussing your strategy. I will lead the questioning.

You are seeking funding for a contingency of 2% a year on top of your pay bill. That is on top of the 1% already allowed for. Obviously, we were quite concerned about this, and we want some reassurance from you, because it is unusual in the public sector. We are interested to know what sort of evidence would need to be presented to your board before you would seek to draw on this extra money.

**Sir Amyas Morse:** The evidence that we would have is advice from our pay consultants, which will not be available until January. Every year, we get advice in January on what comparable pay is out there in the public and private sectors, from—

**Daniel Lambauer:** Towers Watson.

**Sir Amyas Morse:** We get objective advice on what the state of the market is. We deliberately put in that measure to indicate that there was a degree of uncertainty. I think it is more difficult to judge just where to put the pay rate at the moment than it normally is.

You will remember, Chair, that this is not new to us. In the year now finishing, we had a 1% contingency in case the market went up, and I think we can say to you that by the end of this year, we will not have used that contingency on increasing general pay rates, because the market has gone in such a direction that we have not needed to, and we do not judge that we will need to. So the fact that we have it does not necessarily mean that we will spend it—we are trying not to pay more than we need to—but we need to be able to respond pretty quickly. If you look at the alternative choice of coming back with a supplementary estimate, the lead time on doing that is very long and the market moves very fast, so we would rather be in a position where we have some room to manoeuvre. Of course we would expect to account to you for all that, but that is the reason for making the proposal in the way we are doing it.

**Lord Bichard:** I think you should also be reassured, Chair, that the board will also be challenging any decision that is taken on this. We will be looking at whether or not it is justified to use the additional resource and at whether pay increase will actually make a difference if there is a problem. We have already looked at whether or not we should come here today with the proposal. We think it is a justified proposal because of the uncertainties. We have a track record of being responsible. We will continue to challenge, so that we do not spend any more money than we need to, but as the Comptroller said, these things move very quickly. In



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the recent past, we have seen vacancy rates soar for some of our staff over a matter of months. We really cannot be left behind by not having the staff to deal with some of the complex issues that we are currently dealing with.

- Q2 **Chair:** Elsewhere in Government, the Treasury has to be convinced that a Department has particular recruitment and retention problems. I think I know the answer, because we have had this sort of discussion before over the years and I know that your staff are highly employable in the private sector as qualified chartered accountants, but perhaps you could just explain to the Commission, particularly for the benefit of new members, why the NAO is any different from other Government Departments.

**Sir Amyas Morse:** Very briefly, it is because most of our staff come and train with us. They train and qualify as members of the Institute of Chartered Accountants in England and Wales and are therefore employable as accountants. Not everyone is in that position—we have analysts as well, of course—but for the most part, our people are highly employable when they qualify and are immediately given offers by headhunters. They are as employable in the private sector as they are in the public sector. Although we do not try to pay exactly the same rates as the private sector, if we completely ignored it we would just lose our staff, depending on market conditions.

Bear in mind, Chair, that we are not actually asking for a final decision on this today; this is the day for discussing our strategy rather than for agreeing our budget, and we may have a bit more of a precise idea of what we need to pay by the time we talk in March. But that is the reason: we do not solely exist in the public sector, and it has been accepted over many years that we therefore need to approach this in a slightly more agile way.

**Lord Bichard:** Even in the public sector, we have experienced problems with regulators paying substantially more than we are paying our staff, so we need to keep an eye on what is happening right across the piece.

- Q3 **Chair:** Obviously you can target this specifically at certain people you want to retain.

**Sir Amyas Morse:** Yes, we can. We are pretty parsimonious with money.

**Chair:** Thank you. Clive Efford wants to ask you about IT.

- Q4 **Clive Efford:** Some 2% of respondents to your internal survey, which was conducted by your consultants, said that they did not trust the data in your new corporate IT systems, which were bought under the business improvement programme. What can you do to improve the confidence of your own staff in the systems?

**Sir Amyas Morse:** I am going to pass to Daniel Lambauer in a moment, but let me very quickly say that we think that that is an inaccurate reading of what is in the report. The Treasury have just picked up one piece of the report; actually, the favourable responses are at about 40%, and with the



“don't knows” that goes up to about 80%. You can see that in the chart in the internal report.

Q5 **Clive Efford:** Let's put it another way, then: why do 40% not know?

**Sir Amyas Morse:** Because we are still early in the project. Let me quote from the independent auditor's report: “In our view, the NAO has taken a rigorous, action-oriented approach to the BIP implementation, which is closely aligned to good practice, and the challenges experienced are to be expected in this type of process of significant change. The BIP team anticipated several stages of acceptance that users would likely need to pass through, and ongoing training and support is being provided”. I think that fairly well describes it.

Q6 **Clive Efford:** Has been or is being?

**Sir Amyas Morse:** Is being. Has been and is being. Not to say that everything is lovely, but simply to say that for what you would expect us to be at at this time, our progress is not bad. In fact, Daniel, I think there is another bit in the report that refers to that.

**Daniel Lambauer:** The report's introduction says, in paragraph 1.6, that so far we have achieved quite a lot in the timescale. Does that mean we have done everything perfectly? No, we have not. The report is honest about that. Sir Amyas has just referred to the training and support model in the business units. We have looked at and already rolled out more training. The other thing to ask is, do we still have to do more work to ensure our people trust the data? Yes, we do. One of the key things is that trust is established over time, of course. We have to demonstrate to our people that we, in management, use the data to make the best decisions for our staff. We have already done that in the last weeks. We are quite confident that the more we do that—we ourselves use the data; directors use the data to make allocation decisions fair and objective—we will get the scores up.

**Lord Richard:** My observation is that people in the past have not been trusting some of the information on allocations and project management—and they were right not to. That is why we have introduced the new system. It will take a little bit of time before people come round to trusting the system that is now in place. It is a good system and I think they will—we need to carry on with the training—but as the Comptroller says, the external report tells you that this is where we probably expected to be at the moment.

Q7 **Clive Efford:** Do you detect any resistance from staff? There is also a determination to continue to use spreadsheets, according to your auditors. Does that cause you any concern, or is that something that you are addressing?

**Sir Amyas Morse:** Just to be clear, I do not think my colleagues at the NAO would take it as an insult to be described as a moderately conservative bunch, so—

**Clive Efford:** We had better sort that out, then, hadn't we?



**Sir Amyas Morse:** Small “c”. Anything new that you bring in is regarded first of all with quite a high degree of scepticism. Getting the change embedded is something you have to work at. The answer is that, “Yes, there is more work to be done”, but it takes you a period of time to get people used to things and then they turn around and cannot imagine what it was like before that. Then you know you have succeeded. That is the normal experience of managing change in the NAO. We have put a lot of work into improving the way we manage change to really involve people and get them engaged as we go through. I think BIP—the business improvement programme—is a very good example of how to do that, notwithstanding that there is still more to do.

**Chair:** Any other questions on that? Colleagues can come in whenever they want to. I think Jack wants to ask you about rental income. Sorry, Richard, you want to come in again.

Q8 **Mr Bacon:** There are issues in the report on data analytics and in the independent value for money study. Last year, you came to us seeking an extra £600,000 to develop your use of audit technology. This speaks partly to Mr Efford’s question about the staff using the technology. You have replaced a site licence for your off-the-shelf data analytics tool. Can you explain why you have done that? The report says it is something to do with lower than expected use, which again speaks to Mr Efford’s point. I take Sir Amyas’ point about the fact that it takes a while to embed these things, and that a small “c” conservative population of workers will use tried and tested techniques, but the whole point of it is to deliver benefits, which will not happen unless people take it up.

**Daniel Lambauer:** In this particular example, for this software, which is used across the organisation for a certain functionality—sampling—we have had a site licence for some years, which was very cost effective. However, the site licence cost changed. That gave us a chance to look at whether we were really utilising the full effect of it. We did that review, and then changed it to individual licences, which are only for those people who really use it—around 400 users—to reduce the costs, but also to—

Q9 **Mr Bacon:** Sorry, do you mean that the licence was originally predicated on the entire population of financial auditors using it?

**Daniel Lambauer:** Correct.

Q10 **Mr Bacon:** And because only a small proportion do, you bespoke the licences. Is that what you are saying?

**Daniel Lambauer:** Yes, because the—

Q11 **Mr Bacon:** But that’s my point: presumably you achieve concomitantly fewer benefits if fewer people are using it.

**Daniel Lambauer:** The majority of financial auditors use the software always in the same way. One part is to make sure we are really providing it to those of us who are using it for sampling, but we are also using it more and more for other analytics, which is mentioned in the report—for example, the journal analytics or the business process analytics. We are



now trying to squeeze the most out of the functionality. We did look at whether we could replace it completely with, for example, Excel-based tools. That is currently under review; we are trying to build those tools. But different sampling is used in every financial audit. You don't want to make the change too quickly before you are sure about it.

**Mr Bacon:** But the value for money report from the auditors, in talking about sampling, described very clearly for a lay person the way in which data analytics enable one to go from sampling to essentially interrogating the entire population. That is the bit that interests me. It says, "So long as the control of approving purchases is operated as intended, reliance can be replaced on the control to permit reliance on the validity of the purchase made". So, as long as it's all in order, it's all in order, but that presupposes that the controlled bit was done correctly. Does the extra emphasis placed on the interrogation of the whole population also require you to be extra sure about the control? Is that a new weak spot, in other words, or does it not actually make any difference? Was it always a weak spot?

**Sir Amyas Morse:** I think we should see it like this. If you have good-quality data, then you can do big-data analysis and examine the whole thing. If you are confident that the data is above a certain level, then that is an effective way of doing it. The problem, in some of the public sector, is that the data isn't at that level. For that same reason, we have had difficulty in adopting a controls-based approach over time. It is just that the basic data wasn't very good—and, in parts of the public sector, still isn't very good. In the more advanced Departments—generally, the bigger ones—you can use more advanced auditing techniques, because the data quality is better. At one time you can do big data and/or, in some parts, you can rely on testing controls.

Q12 **Mr Bacon:** This is probably my last question. If the new technique relies on looking at the entire population of data, rather than simply sampling, so long as doing that does not reveal any unusual transactions, the assumption is that it will all be okay, but that surely presupposes that the control was done properly in the first place. In other words, a criminally minded person—somebody trying to commit some form of fraud—might try and design it so that it would not show up as an unusual transaction, because it had passed the control earlier. How do you guard against that?

**Sir Amyas Morse:** No. Just to be clear about it, by looking at all the information, you learn things—where that is possible, because the information is of the right quality—that simply weren't known, that you would not have picked up before. So you learn an awful lot. Let me give you an example. We were doing an audit where we were told that there was new software that would allow the accounts to be prepared very quickly and easily. By doing an examination of all the journal entries, we could see that effectively the accounts had been prepared by hand, because we could see that there were hundreds, thousands, of journal entries, and there should have been only very few—a few hundred. By looking at the data, we could tell that what management was saying to us simply was not quite right. Whether they knew it even themselves—



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whether they had been told by their finance team—it was quite clear. So, by looking at the whole population of data, you learn different things. So long as it is good enough that you can go into it, it is much more difficult to mislead you about many things in the account. You actually know more about what is going on in the organisation, in many ways, than the people who are running it.

Q13 **Mr Bacon:** Hence the point about greater insight rather than lower cost.

**Sir Amyas Morse:** Yes.

Q14 **Clive Efford:** Can I quickly ask you about IT security? You are locked into an arrangement with the Government until 2018-19, but beyond that you are looking for £415,000 a year. How did you arrive at that figure?

**Daniel Lambauer:** The replacement we are looking at at the moment is a cloud-based replacement, O365. With cloud replacement software, there is different security thinking. We want to get full ISO 270001 accreditation, which is the security accreditation for the top standard measure. We want to do more penetration testing to make sure that our data is really secure. We are also investing in generally more enhanced software licences for added security packages for when we go on to the cloud. Those are the main elements.

**Sir Amyas Morse:** It is important to add that we do not have an option to continue with where we were, because effectively it is being discontinued.

**Daniel Lambauer:** That's right.

**Sir Amyas Morse:** It's not that we have suddenly decided to go off and do something different on data security; it is not going to be maintained. All the major Government Departments are moving out of it, and therefore we have to make choices. We apply extremely high standards of information security to ourselves because we have information from other Departments. Clearly if anything went wrong with that information, it would damage our relationship with Government a lot. We set a very high bar for ourselves as far as information security is concerned.

Q15 **Clive Efford:** The previous arrangement that you are locked into with the Government—is there no common sense in continuing with that, to get economies of scale?

**Sir Amyas Morse:** They're going to stop maintaining it. We don't have a choice of doing it.

Q16 **Clive Efford:** But even going forward, if they are going through the same process—

**Daniel Lambauer:** Most Government Departments are moving to O365. The network will discontinue in 2019; that is a Government policy.

**Sir Amyas Morse:** The only reason for doing anything different is that we felt we needed an even higher bar for information security than some Government Departments might feel they had. That is the only reason that we would do anything different.



**Q17 Jack Brereton:** You have already mentioned that you want more money from us. What are you doing to achieve more efficiencies, particularly around your assets? You have already outlined proposals to save around half a million per annum in revenue. Could you please elaborate on how you are going to achieve that? Will that have any impact on how the NAO functions?

**Sir Amyas Morse:** No. We wouldn't be proposing to do it if we thought it would take away from our capability. My first job is to assure you that we can do our job properly and that we have the resources to do it. I regard that as a first test, but we continue to drive for efficiency, and in some cases we are using systems to let us work more efficiently. One of the reasons why the amount that we put in the budget for value for money this year is down a bit is that we believe we can do more for the same amount or somewhat less. More generally, we are getting a lot of new audits sent to us through Government and we believe we can accurately accommodate them within our costs and still deliver efficiencies.

Finally, we are sub-letting more of our property, and that is producing cost efficiencies. That is simply applying the Government space standards as well as we can. We have achieved that in London, where we have a bigger office that is easier to sub-let, but it would be much more difficult to do that in Newcastle. The Treasury letter asks whether we have thought about doing it there, but the Newcastle space is much smaller and is not as easy to separate. We would have great difficulty, in a relatively small space that we are paying a relatively low rent for, in finding a way of separating it out, slicing it and sub-letting any more of it. I think that would be practically very difficult for us.

**Lord Bichard:** It is worth saying that when we came here last year, we said that we had just carried out a corporate service review that would produce savings in the business support, and that we would reallocate some of the resource to the frontline. We have actually saved 24 staff in business support. Some of them have been reallocated to audit, as should be the case. We have also reduced our staffing numbers from 825 three years ago to 805 now, and they will go down further at the end of our strategy. We are delivering on the need for greater efficiency, and BIP has helped us to do that.

**Q18 Jack Brereton:** Have you looked at alternatives, in terms of where you are located? Obviously, property prices vary significantly across the country. Property in the south-east, compared with the north-west or north-east, is very different. Have you looked at alternatives for where you are located, and at any return in income that may be received due to moving some staff to alternative locations?

**Sir Amyas Morse:** We have considered that. As I said, we have an office in Newcastle, and we service audits in the north of England through it. The difficult we have got is that most Government activity is in or around the London area. Nearly all of our audit teams spend a lot of their time out of the office in audits in London, so if we were to say, "We are going to base ourselves somewhere else," that would mean that all of our people would

be travelling a great deal to come into London to do work. I don't think being in a position like that would be an economy. It would also add considerably to our difficulty in retaining staff. If you said to everyone, "You are going to be working in London every week, but we have deliberately moved out to give you a journey," I don't think that would go over very well.

**Chair:** Can I just ask you a quick question about international audit?

**Sir Amyas Morse:** Certainly.

Q19 **Chair:** You got about £100,000 a year in fees, and you want to increase that to £500,000. It is not quite clear what you are going to achieve by that international work, if you are just covering your costs. I seem to remember that when you took over from your predecessor, you wanted to concentrate on the home front. What has changed?

**Sir Amyas Morse:** Not a huge amount. You will remember that we were auditing the United Nations, and therefore we had a very substantial international audit. We talked to you last year about the fact that we were therefore going to pick up quality audit work. A few months ago, I was in Washington proposing successfully—thanks to the team—for the Pan American Health Organisation audit. We are targeting only what I call high-quality audit assignments, which genuinely fit in with our portfolio. There was moderate growth to make up for some of the income lost when our term at the United Nations ended. I should say that I have also been asked to sit on the UN audit advisory panel, which should mean that we will—

Q20 **Chair:** Do you think it might make them a bit more cost-effective?

**Sir Amyas Morse:** I spent the whole time I was there as auditor writing reports recommending that. Some of them were regarded as very tough by the UN.

Q21 **Chair:** So you think you can make a difference?

**Sir Amyas Morse:** I don't know how much of a difference we make.

Q22 **Chair:** What's your impression of the UN's audit?

**Sir Amyas Morse:** My impression is that the UN is an organisation that is extremely heavily dominated by the member states. It is difficult to move because you have various different groups. You have got the western donors, and you have got the G77 and China all in it as a huge group. Generally, if there is a proposal for something that is going to reduce costs for the UN, it is seen as the western donor countries wanting to reduce their cost at the expense of benefits to the third world. As a result, proposals for efficiency become politicised very quickly. Whenever we produced a report, we would be accused of supporting a western donor approach. It was quite difficult. I think we made headway, but the nature of the organisation means that the member states have an enormous influence on any change that happens.



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Q23 **Chair:** But is there some sort of equivalent to you? We have got a sort of consensus in this country. We know you don't get involved in policy, but you do get involved in waste and inefficiency. Is there any way you can build a similar consensus in the UN for a body like your own?

**Sir Amyas Morse:** We were doing our best to reach out to those who supported our work when we were there. I had a lot of meetings with our own UK ambassador and with the US ambassador. Also, every year, I had lunch with the Secretary-General. We worked hard to support our work and bring across the points.

Q24 **Chair:** Presumably there are circumstances in which you have been offered work, but for whatever reason you have turned it down. Can you give us an idea of something which might be considered inappropriate?

**Sir Amyas Morse:** We would turn down work that we saw as simply capacity building at low margins, and where we would be involved in having to scale up our organisation for something which is just not on our critical path. We have a lot of approaches about that.

Having said that, we do not close our doors on developing countries. What we are very happy to do—I have a lot of visitors from developing countries who are interested in learning how we do our audit work—is give them information, quite often for nothing, simply because we already have it and we are happy to do that, but we try to avoid getting involved in costly projects that will not actually add much to our knowledge in the NAO.

Q25 **Chair:** I think we would support you on that, because we were worried about the trend of your office before.

**Sir Amyas Morse:** Thank you. I am quite hard-nosed about it. Looking back to when I started, in preparing for this hearing, the amount we spend on international liaison and all that has gone down. It is actually at about a quarter of what it was when I started in this job.

Q26 **Chair:** We want you to be here. We don't want you to travel too much.

**Sir Amyas Morse:** I like it here as well, Chair.

**Chair:** We don't often talk much about this subject in this building, but the Leader of the House would like to ask about audit Brexit.

Q27 **Andrea Leadsom:** Sir Amyas, you have suggested that the NAO could have a contribution to make in looking at the costs of leaving the EU. Can you fill us in on that? What do you think you can do? Can you meet the potentially tight deadlines? What do you think your role might be?

**Sir Amyas Morse:** Thank you very much; it is a great pleasure to meet you across the table.

We have already done quite a lot of work. Just yesterday, we had a hearing of the Public Accounts Committee, based on briefings that we have prepared on DExEU and other key Departments, and there will be more reports on DEFRA and the other Departments that are most affected by the EU. They are simply factual briefings.



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The first strategic view of the EU that I took was that there are a lot of MPs who simply want to understand a lot more about what is going on and what is being done about Brexit. We simply set out to show how the public sector and the Government were preparing themselves for whatever might come in terms of Brexit. Our first job has been to try to do that.

Now things are becoming a bit clearer. Literally days ago, as you know, we got more of an idea of the way ahead. We are now exploring how we would examine any—if I can use the expression—divorce settlement, from the point of view of being able to give whatever assurance we could to Parliament about its reasonableness and value for money. That is at an early stage, but we have already had some discussions with the Treasury, and we have more to come that are current at the moment.

I expect we will do some work on examining the various elements of charge—how they are being arrived at and whether the whole thing hangs together—from the point of view of providing some assurance to Parliament. I think that will probably take the form of—I know at the moment that it is early days, but we will probably try to do a piece of work moderately early in the new year, and then as more and more detail comes in, we will no doubt revisit it.

The final thing—sorry to go on so long—is that we are at the stage, in terms of internal preparation for Brexit, where a lot of Government have been preparing plans. The next stage will be aiming to implement those plans against a time scale. I think we are going to start to make much more judgmental reports when we examine how the plans are being carried out and whether the resources and time scales for carrying out those plans are realistic.

**Q28 Andrea Leadsom:** Just to be clear, you will decide to initiate that work yourselves? You will not wait to be asked by Government Departments?

**Sir Amyas Morse:** No.

**Q29 Andrea Leadsom:** How will you access the information that you need in short time spans?

**Sir Amyas Morse:** I have statutory access to Government information. I want to emphasise that we do this responsibly. We have discussions about things that realistically and fairly can be brought into the public domain and reported to Parliament. If there were things that were very sensitive to negotiations or other matters, we either would not report them or we might suggest a closed hearing or something of that sort. That is a discussion that we would have very carefully with the Department. The last thing we want to do is damage the national interest, but I think that is well understood in our discussions. We have had a lot of meetings with DExEU and with other Government officials. They understand that we are taking an approach of not being shy about the need to inform MPs and putting them in a position to hold the Executive to account, but also being responsible and not wishing to do any damage either.

**Q30 Andrea Leadsom:** Will you, then, just look at the costs of leaving the EU



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or will you also look at whether, in the NAO's view, those costs are justified?

**Sir Amyas Morse:** I don't know how far we will get up that ladder. For example, I can imagine examining specific heads under which elements of a package have been calculated, and saying, "Is that normal and reasonable?", and so forth. When you start talking about, "If you pay over and above the specific elements, what did you pay for? Is that value for money?", that may be getting a bit beyond my pay grade. Let us put it this way at least: you will rely on economics experts and other people to tell you whether that is value or not. I do not see myself forming an accountant's judgment on it, I have to say.

Q31 **Andrea Leadsom:** To be clear, then, you see it as your role to ensure that you do not do anything that might damage the negotiations. Would you take that very much into account?

**Sir Amyas Morse:** Yes, I do. However, from my experience in this job, I think that one needs to have that discussion in a moderately robust way, otherwise you might find that reason being trotted out when it should not be.

Q32 **Andrea Leadsom:** You have said on the record that you hope that the EU negotiation does not fall apart like a Chocolate Orange, and that it needs to be like a cricket ball. Do you think that is consistent with keeping a low profile in terms of the politics and negotiation? Could you explain what you meant by that?

**Sir Amyas Morse:** I wasn't talking about the negotiation at all, nor could it possibly be interpreted as referring to that. What I was talking about was the departmental system of Government under the pressure of trying to prepare for Brexit. I was seeking to convey from that image that Government needed to act in a unified, co-ordinated and organised way, not just Department by Department looking after themselves. Actually, I am pleased to say that I have seen the emergence of a more co-ordinated approach. That is what I was referring to. It was not about the negotiations at all; it was about what we were hoping to see from Government in terms of organisation of the internal work on Brexit. Admittedly, I did not expect the phrase to pick up to the extent that did.

Q33 **Andrea Leadsom:** So now is it more of a cricket ball or more of a Chocolate Orange?

**Sir Amyas Morse:** I think it's a chocolate cricket ball.

Q34 **Clive Efford:** Would you be able to assess whether they have done the appropriate ground work to prepare themselves for negotiations and to have any idea of what a divorce package might look like?

**Sir Amyas Morse:** No, I wouldn't. I have not done any work on that at all.

Q35 **Clive Efford:** But are you capable of doing that?



**Sir Amyas Morse:** The negotiations are going on now. At the risk of being repetitive, I can look at what appears to be the elements. Looking at the preliminary report back from the first negotiations, which I have read with care, clearly there will be elements that will be used to build up a picture of what value is to be compensated for. You can see that set forth in that joint report on negotiations so far, which is a public document. We can competently look at each of those elements and see whether there is anything odd about them or whether we would regard them as supportable. We can certainly do that. I do not expect to find anything very extraordinary in doing that, but we can do that. We can also look at how they have been aggregated and whether that makes sense as well.

Where it gets a lot more difficult is that many of these are payments over a long period of time, and we are going to be looking at discounting them back to present-day values and understanding how that will work. What we would simply be looking for, I guess, is whether the method of doing all that is reasonable—not whether it is our method, but whether it is a reasonable method. That is the sort of thing we can look at quite sensibly. That is not to say I can look over a Minister's shoulder and say how they prepared for negotiating in principle, because that really is all policy. The reason we confined ourselves very much to the Government's internal preparations for planning and administration is that we did not want to get involved in these policy questions about what the nature of the settlement might be or what in principle it should be. We are more interested in what the elements of it turn out to be when you start putting numbers on them. Am I being reasonably clear? I am trying to be.

- Q36 **Clive Efford:** Let me try again. Surely, there are basic requirements in carrying out calculations that you as an accountant would expect to be in place. We have heard a lot, for instance, about sectoral impact assessments, which we were told were in excruciating detail but now, apparently, do not exist. If those elements are not in place, are you in a position to say you actually cannot come to a logical conclusion because you have not done the basic work?

**Sir Amyas Morse:** I haven't put myself in a position to do that work, because examining the negotiations as they went along in that way would have been interfering in policy discussions, and I just do not think it is my job to do that. However, what I am trying to say by repeating this point about looking at the settlement is that I think it will become apparent whether all the elements that have been the basis for reaching a settlement look reasonable when we actually examine those elements in the settlement itself. I think we will get there; we are just not trying to interject ourselves into the middle of negotiations.

- Q37 **Mr Bacon:** The thing that struck me about the £39 billion that has been announced as the provisional bill, at least, although it seems to be widely accepted—I am not saying it is not controversial, but a large number of people do accept it—is its size. HS2 originally cost £32 billion, so we are talking about an HS2 amount of money. It is a very large amount of money. In coming to an assessment about whether it is value for money, what will you be taking into account? Macroeconomic projections for



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trade relations in the years ahead? How do you begin to measure the value for money of something like that?

**Sir Amyas Morse:** First of all, this is all a bit theoretical because we are not actually doing it yet, but let me try to answer you as best I can. If you are leaving an organisation and you have been part of decision making and you would have needed to pay x, y and z for your end of various things, how do you estimate that? If it turns out that these numbers were arrived at by saying, "In the budget period up to 2020 we would normally have contributed this amount to a series of committed programmes," and then, allowing for the fact we are leaving, trying to arrive at what we should pay, then they are not completely unknowable sums. There is a budget already in place and then there are other long-running—

**Mr Bacon:** Yes, there's a multiannual financial framework already in place.

**Sir Amyas Morse:** Yes, that's right. There are a lot of specifics that these figures will be based on, so at that level a certain amount of reasonable assurance work can be done to say, "Have these things been arrived at in a reasonable way?" I hope the answer to that would be yes. What would be more difficult is, when you have added up all those components and examined them, if it turned out that you were paying more than what they all added up to, what would that extra amount be for? I can imagine that being a more difficult thing.

I was trying to provide myself with a bit of an escape hatch on that by saying that I am not sure how we would be able to evaluate anything more that was paid for in consideration of preserving our relationship or having a particular trade relationship. We don't even know that there is such an excess amount—we are so far away from that now. There is a long way to travel before we are in a position to know that. I have tried to answer your questions based on what I have read, but it is very indefinite that that is exactly what it will be like.

Q38 **Chair:** Traditionally, the PAC has been a post hoc organisation that looks at events after they have taken place; we are very good at that in this country. When Alan Williams was chairman of this body and when I was Chairman of the PAC—Richard was on it—we had all these discussions, and more and more we have encouraged you to actually look at problems as they are developing. We saw that particularly with the Olympics. We didn't wait until the Olympics had happened; you started looking at it as the preparations were made. I am sure we would want to encourage you, in this aspect of your work on Brexit, to keep a continuing idea as it is developing.

**Sir Amyas Morse:** Thank you.

**Chair:** In terms of this divorce bill, there are very strict Government accounting rules, aren't there? You would presumably want to be satisfied that this is not just some bung. As you described to us, everything has to be quantified and qualified and has to meet particular legal commitments and all the rest.



**Sir Amyas Morse:** I will look very carefully at all of that.

Q39 **Chair:** Thank you very much. Will there be much more work on that? Obviously, as powers are repatriated, there will be more work for you, won't there?

**Sir Amyas Morse:** That's right.

Q40 **Chair:** Do you think you will be coming to ask us for more staff and more money?

**Sir Amyas Morse:** Thank you for asking that, Chair. I guess it has occurred to me as a possibility. Because this has only just been agreed, how much work we can get done in the rest of this fiscal year—to April—is a question. If it turns out there is a lot, we haven't got a budget for that.

However, given that we have an amount of contingency that we were going to use for pay increases, which we are now not going to be using, I am hopeful that we could manage within that, if the Committee is agreeable to us using that contingency to cover that purpose. Otherwise, I will be involved in asking for a supplementary estimate, and my advice is that if I wanted one for this current year, I would have to start now. Frankly, at the moment, I do not know what work we will need to do. I am not in a position to say that, and probably won't be for some weeks—until the other side of the holiday. I think, honestly, given that we actually happen to have a surplus amount that we are going to have at the end of the year of about £500,000—

**Daniel Lambauer:** £600,000.

**Sir Amyas Morse:** £600,000. I would like to have that in hand and say, if necessary—when we have our meeting in March, I would explain all this—“We've had to do this extra work; I'd like to use this contingency against it.” It strikes me that that is probably rather better than the other, very circuitous route that is available to us.

**Chair:** Thank you very much. If everybody is happy on Brexit, Richard wants to talk about sustainability of funding.

Q41 **Mr Bacon:** This funding of local services and their financial sustainability is of considerable interest to the current Chair of the PAC. Paragraphs 2.21 and 2.22 of your strategy talk about this. It says: “Our studies indicate that joined-up decision-making and funding arrangements between connected systems—local government and the health system for instance—are often missing, leading to deleterious consequences such as ‘cost shunting’”. Can you say what common themes are emerging from your studies in this area so far?

**Sir Amyas Morse:** Probably the most concrete area that we are looking at on this is the interaction between the health service and social care, and between the health service and local government. We do a study every year on the financial sustainability of the health service. We also do a study every year on the financial sustainability of local government. We look at both of those. We are particularly focused on how health and local



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government, which are delivering social care, are interacting. We are very interested in how they are working together in the area improvement plans—the partnerships that they are entering into. Are those really delivering the level of co-operation that was advertised? Or is most of the leverage on one side rather than the other? We are doing work to try to understand that.

Q42 **Mr Bacon:** How big a problem do you think cost shunting is?

**Sir Amyas Morse:** Even proving it is not easy, but there certainly is an effect, I think. If you are in a position where you are just focused on social care as it interacts with health care, you risk putting all the emphasis on committing funds in what I call matched funding arrangements between health and social care but, of course, all the rest of social care has to carry on as well. There can be a risk that the remaining social care budget gets a bad deal, relatively speaking. We need to understand that sort of thing. I am not even necessarily saying that it is happening in every case, but it is an important subject because you could say, “Health care is very important and it has succeeded in putting itself at the head of the agenda”, but social care is no less important; I do not think anybody would say that it was. It is about trying to get that balance right. It is for us to probe into exactly how those discussions are taking place and where the balance of power is.

Q43 **Mr Bacon:** Where do you stop? To take the example of large acute hospitals incentivising activity and then getting lots of activity, mental health takes what is left. It is often, for example, the police who then pick up the pieces. Would it not be appropriate to look at the costs that the police are incurring, rather than inappropriate?

**Sir Amyas Morse:** Yes, and as far as we can look at things like that, we do.

Q44 **Mr Bacon:** When does the question of you doing your job as an auditor and asking, “Is there enough money for providing this service?”, stop being an appropriate question and start being you doing something that Parliament ought to do, in terms of policy, and Government ought to do, in terms of questioning whether there is enough money for a certain thing? Is it an auditor’s job to question whether there is enough money for a service? If so, to what extent? When do you cross the line into policy?

**Sir Amyas Morse:** It is not our job to question whether there should be more money for a service. It is our job to point out what the effects of the current funding levels may be. In other words, it is perfectly reasonable for us to say, “These are the plans. They are not all funded. There is evidence”—if I can say there is evidence. To step over to the audit function, two years ago, you may remember that I did a very long-form report on the Department of Health accounts. I showed that a lot of things were being done to try to keep the accounts within the spending capacity, and, you know, apparently a mistake in accounting was made that happened to help to bridge the gap by half a billion, and so forth. There were a lot of things that really were unsatisfactory, which I pointed out



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and said that I hoped would never happen again. I said there that those behaviours could be evidence of severe financial pressure on that organisation. I do not think that is political; it is just that you can see that people are trying to do just about everything they possibly can to get their accounts to square. They would not be doing that if they were not under a lot of financial pressure. I do not think that is the same as politics. I think we try to stay at the practical, non-policy end of it and look at the practical results on the ground.

**Q45 Mr Bacon:** Do you think the joint approach, such as the joint funding of the better care fund, is a suitable model? Are there are other examples where that could work? Does it work?

**Sir Amyas Morse:** It does depend on everybody having an equal interest. I think the better care fund has struggled because originally the idea was that it would be funded by money coming from the NHS. The NHS has found itself under financial pressure and it has not felt comfortable putting very large amounts into the better care fund—I am talking over a period of two or three years now. You can find evidence that the planned sums did not go in, but again, that is not political; it is just finding evidence and having explanations given to you by senior officials.

**Lord Bichard:** As ever with local services, things are very different from place to place, and a lot can depend on the personal relationships in a local area between health and local government, so it is quite a complex subject on which to make generalised statements. What we have been doing is constantly increasing our knowledge of what is going on locally. For example, we have an executive director now who must now more about what is going on in local services on the ground than just about anyone else in the country. We draw on that, but it is a difficult subject on which to make generalised national statements.

**Mr Bacon:** Thank you.

**Chair:** I think Clive has some questions about skills.

**Q46 Clive Efford:** On the management of projects, it seems that every year you express concern about the Government's poor track record in delivering major projects. What more can be done to address it? Are things getting better or worse?

**Sir Amyas Morse:** One thing that could be done is not taking on major projects if you do not have the capacity to manage them—in other words, being realistic about how much you have on your plate at the moment. I am very pleased to see that as one of the consequences of preparation for Brexit, major Departments are starting to go through a full prioritisation exercise. They are looking at the amount of Brexit work they have to do, comparing that with their already very full programmes and thinking, "It is not just a question of funding. Do we actually have the capacity and skill sets in the middle of the Department to run this vast portfolio—this vast programme—or do we need to be a bit selective and think about what we should prioritise?"



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In some cases, it is just about having enough of a supply of people who know how to run these things properly to be able to do the job. You might be able to hire people from outside, but you still need people in the Department who know what “good” looks like, and who can hold the contractors to performing properly. If you do not have enough of them to really run a big programme, you end up being in the hands of contractors more than you ought to be; you are properly getting to the edge of your capability to run that scale of programme at the same time. It is about having that objective assessment, rather than just being keen to please and taking things on.

The other problem is squeezing budgets, and saying that you will manage a programme within a cost base when that will only really happen if you are very lucky indeed. Presenting that as a likely result in order to be able to say yes to something that you should be saying no to—that is the sort of stuff that we keep on seeing and criticising. It is not impossible to fix; it just needs a lot of determination.

- Q47 **Clive Efford:** Are you saying that that was the problem, and that post-Brexit they have learned their lessons and changed their ways, or are you saying that that is a process that they still need to go through?

**Sir Amyas Morse:** I will be very astonished if it all goes away because of Brexit. I am just saying that one of the impacts of such a massive challenge as Brexit is that people are changing their way of approaching things. They are telling us that they are doing reprioritisation exercises. They are not finished yet, so I will believe the full effect when I see it, but at least the idea that we have too much on our plate and need to cut back has got to the top of major Departments in Government. I had not heard or seen that process taking place previously, so I am very encouraged by that, at least.

**Lord Bichard:** One of the things that the Comptroller is constantly talking about, and he is absolutely right to, is optimism bias. The civil service/Whitehall/Government has this ability to suddenly become optimistic when it sees a project or a new policy. I always found it very strange when I was in the civil service that people who are generally very sceptical suddenly become so optimistic. If you are managing projects effectively, you have to be a sceptic. You have to expect things to go wrong, manage your risk and know what your contingency plans are. We have to get the message across. It is a cultural thing as much as anything; I know that the Comptroller has spoken to senior Whitehall officials about it, but I think it is something that we should keep going on about.

- Q48 **Clive Efford:** So is it the lack of skills or, as Lord Bichard has said, the mindset and the culture? What is it?

**Sir Amyas Morse:** It's both of those. I could give my place up to John Manzoni, who is the chief executive of the civil service. He would tell you exactly what I am saying. It is a mixture. He is trying—

- Q49 **Clive Efford:** His predecessor probably said that too, and the one before that.



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**Sir Amyas Morse:** Well, John Manzoni is actually a guy who has had his career in BP as a senior executive, not in the Cabinet Office, and now he is in charge of the Cabinet Office. So he does know. He has managed some successful—

**Clive Efford:** Problems.

**Sir Amyas Morse:** He knows problems; yes, that is a fair comment. But he knows problems where you get sacked if you get it wrong. That is probably the best qualifier. Running something where you get fired if you get it wrong is a bit of a different environment; it makes you take it all a bit more seriously.

So the answer is: it is a mixture of skills and of the inevitable interaction between the political imperative and the management imperative, and they are not the same. It is always going to be a tough job to manage them against each other. If we just admit that—I am not saying that the political imperative does not matter; of course it does. But finding a way to manage that interface would really improve the effectiveness of Government a lot.

Q50 **Clive Efford:** Just one little step further. How can you help achieve that?

**Sir Amyas Morse:** I do think we help by keeping on pointing it out. It has shifted the debate. And where we see positive developments, we try to support them and encourage them and speak out in favour of them. For example, one of the things that has happened directly as a result of our work is the fact that where a major project is being initiated now, the accounting officer has to sign off on a personal accountability statement—they are personally saying that they have checked that the project is doable.

Does that mean we are suddenly into the realms of sweetness and light? No, but it does begin to locate responsibility where it belongs: on the accounting officer. I think that is a positive development. I was very grateful for the support we had from the Treasury for that, who helped to get that accepted across Government. You then have to follow up and push that through to really make it effective, which is a matter of years, but that is how positive change happens.

Q51 **Clive Efford:** So why do you say that the quality of financial reporting by Departments is so poor?

**Chair:** You say it has declined.

**Clive Efford:** It is in paragraph 1.12 of your strategy.

**Sir Amyas Morse:** The answer to that is people have been applying economies to finance departments, and they have taken out a lot of the people who were preparing the accounts. Our experience over the last year has been that we have had to do a lot more work to try to get Departments to get their accounts finished in a form that could be audited. That is partly because they have been applying a daisy cutter approach to cost cutting.



**Q52 Clive Efford:** We have been written to by the Chair of the Public Administration and Constitutional Affairs Committee, who I understand has written to you, raising four specific areas of concern in its report. Those are: that the National Audit Office should publish an annual report that identifies how many accounts are qualified; that the UKSA statistical code should be applied; that performance data and commentary should be included in the annual reports; and that Departments must, on a quarterly basis, share full and unredacted single departmental plans with you. I do not expect you to answer all four points, but do you intend to respond to that letter?

**Sir Amyas Morse:** Yes, but this is distressing. Since I was a witness at PACAC only two weeks ago and I have had frequent conversations with the Chair, it is a bit disappointing that this should be the only medium of communication. I am sorry. We did work to react to the report when it came out. We worked with the Treasury.

I don't agree with it all, despite the suggestions at the bottom of the letter that I might be secretly very enthusiastic about this. We used to do an annual report years ago, and in fact I remember agreeing with Sir Edward when he was Chair of the PAC that it was all getting a bit boring and we would stop doing it, so it is not like we have not done it before; it had just turned into a bit of boilerplate, so that is why not.

Clearly, the Committee has heard some testimony from the Statistics Authority, which seems to be suggesting that it should play a much bigger role in management and accounts preparation than it has been called on to do previously. I am not broadly in agreement with that—it is certainly an unusual view of how management should be done, and I do not quite agree with that. I am very much in favour of open quarterly reporting of single departmental plans. I will certainly reply on all those points, and I am sorry that I have not dealt with it more promptly.

**Clive Efford:** Glad to give you the opportunity to get that off your chest.

**Sir Amyas Morse:** Thank you. I appreciate that.

**Q53 Jack Brereton:** I want to ask a bit more about the support that you have suggested you want to give to the Public Accounts Committee. You have suggested three areas where you would like to improve the support you are giving, whether that be tailored briefings, greater support in following up on recommendations, or responding much more quickly to emerging issues. How did you determine that those changes were necessary?

**Sir Amyas Morse:** By asking MPs what they wanted.

**Q54 Jack Brereton:** In terms of the changes that you want, was that in response to the Public Accounts Committee specifically, or is it generally that MPs have been coming to you and raising those sorts of issues?

**Sir Amyas Morse:** Through a full year, I meet all the Chairs of Select Committees, and we have a lot more contact with them than that, so I have a fair bit of understanding. Of course I have a particular relationship with and responsibility to the PAC, but I also have a general duty to



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support MPs in holding the Executive to account. I take that to mean supporting other Select Committees wherever I can, as well as replying to individual inquiries from any MP who writes to me and asks me to look into something. We have a huge postbag for that.

We have a very active relationship with MPs across the spectrum. We ask them what they would like, and we do our best to respond to those requests within reason and sensible use of resource. Most of the Select Committees ask us to provide them with work that is within our skill base. If they need something evaluative done or some evidence that will help them with their inquiry, we will do that, and if they want us to provide testimony, we do that. As I mentioned, I have recently testified at PACAC and also at the Treasury Select Committee. I was very pleased to have the chance to do that, and I hope they found it useful. We try to make ourselves as useful as possible.

**Lord Bichard:** I was merely going to add that we also have nine people on secondment to Select Committees at the moment. That is good for their development and good for the Select Committees.

Q55 **Jack Breerton:** How quickly do you think you can make the changes that you have outlined?

**Sir Amyas Morse:** Some of them we have already made. By doing investigation work, which we did not use to do—this is something where if somebody raises an issue that needs to be looked into, we do not express an opinion; we simply find the facts. We can do that in about six weeks to two months, so it is very fast. If an issue is running, we will look into it. For example, you will remember that there were issues regarding medical correspondence going missing with a contractor. We did a very quick study, and it turned out that there was some more correspondence, which people did not realise, and we immediately went quickly and investigated that. Apart from our more deliberate, much deeper reports on value for money—they take roughly six months or so to do—we now have the ability to move fast and provide the facts of a case, and that has gone down very well with MPs.

Q56 **Julian Knight:** I apologise for my late arrival.

Lord Bichard, looking back at the last three years in post, do you feel that you have achieved what you set out to do? What steps have you taken to ensure a strong leadership team?

**Lord Bichard:** We have a strong leadership team. I think that the three things I said when I sat here three years ago were: first, that we wanted a strong board, particularly as we move towards the succession for the Comptroller; secondly, that we wanted to be efficient; and thirdly that we wanted to increase our impact. I think we have picked up some of those issues this morning, but I will just pick up on each of them.

The board is now strong, and the leadership team within the board is very strong. If you look at the staff survey results, which we have only just recently got, you will see, for example, that the leadership team's visibility



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in the organisation has shot up by about 17 percentage points in one year, and 5% more people in the organisation think the leadership team is setting a good vision for the organisation. I am delighted about that. I think it is a strong board. We will be coming to you in January with one further appointment—a non-executive appointment to the board—which I think is also a very strong appointment, so I am pleased about that. You can always do things better, and I would rather not have lost a couple of non-executives on the way, but there are always reasons for that. So I am pleased about that.

On efficiency, we have touched this morning on the fact that we have reduced staff from 825 down to 805. We have reallocated resource, as I said earlier, from business support to the frontline, and we need to do that, because audit is becoming more difficult by the month. I am pleased about that; I am pleased that we have reduced our business support by 24 posts and that the business improvement programme—you are going to go on to talk about that in a moment—generally is felt to have been implemented very effectively.

In terms of impact, which I am especially interested in, we are going to continue with the financial impact statistics, but as you have already heard, I think we are doing a lot more now to add value. We have got investigations that we are involved in that are quick and high-quality. They get to the point of MPs' concerns very quickly. I think we are also doing more to influence decision makers. The Comptroller is meeting accounting officers and Chairs of Select Committees on a regular basis and trying to bring home to people some of the issues we have talked about this morning, around project management, for example. There is more to do on that. We were running roundtables and strategic seminars, and I would like to see us doing more of that, if we had the resource.

On those three, I am reasonably satisfied, but not complacent. We have seen other things that I think the Comptroller and the staff at the NAO should take credit for, and not me. We have seen significant improvements in the staff survey results; it looks like a place that is feeling much more confident about itself. We have improved quality—look at the feedback and the external assessments. We have expanded our remit. We haven't talked this morning very much about the BBC and the Bank of England, but we have at previous hearings. Some people were sceptical as to whether we would be able to take that on effectively. Well, I think we have.

Am I happy? I would have been happy to have been here; you can always do things better, and there are new challenges ahead.

**Q57 Julian Knight:** You were quite sceptical yourself on the Bank of England, of course.

**Lord Bichard:** On the Bank of England? No, I wasn't sceptical about the Bank of England. I felt that we should have had the responsibilities that we were given. I thought it was entirely appropriate, and that is exactly how it has worked out. Our relationship with the Bank is very positive. I



think we are doing very useful work, and that is exactly the same with the BBC.

- Q58 **Julian Knight:** How have you tried to ensure that you drive efficiencies within your own organisation? You mentioned headcount before. You have a figure now of 805. I think you had a target that was lower than that originally—it was 785, I believe.

**Lord Bichard:** It was 785, but we have taken a decision that it is a better use of our resource to keep the 805 and to train our in-house people, rather than to be recruiting as we need them from outside. These decisions are discussed not just in the leadership team, but at the board, and I can tell you that the board challenges the Comptroller strongly on whether or not these are the right decisions. I think they are. We have said that at the end of the three-year strategy we will reduce that figure, but in order to do that, we need the investment in IT that we will be looking for in March when we come back here.

**Sir Amyas Morse:** The only thing to add to that is that we are getting continuously asked to take on more and more work. I don't just mean Brexit; we have a lot of new audit clients. There is a large number coming our way, some of them very significant and technically challenging. Just to be clear with you, we went through a careful thought process about staying at the numbers we are at. That float is the only reason that I am hopeful, and that I haven't had to take some radical action on what we need to do about Brexit. I want to see how we manage. I think we will need some extra resource, but I do not know exactly how much.

- Q59 **Julian Knight:** Do you intend to increase headcount?

**Sir Amyas Morse:** It might be necessary, depending on the scale of work we have to do on Brexit in the rest of this year, but it is not a plan at the moment.

**Lord Bichard:** I think we made it clear in the strategy that if there is additional work, we do not have the resource to deal with it. As the Comptroller says, we are often asked to take on work, and we have actually taken on quite a lot of additional work over the last three years, and have absorbed it with the resource that you have before you today. We are also dealing with a situation, as you have heard, where financial reporting within Departments is not as good as we would have wished. To some extent, we have to compensate for that, and that is why we have increased our audit capacity.

- Q60 **Julian Knight:** Let's turn to the financial impact of the savings that you identify for Government. Obviously, there are defence savings, which have now sort of effectively fallen off the figures, as I understand it. As a result, the identified figures—I have come to page 33 of your annual report and accounts—have reduced from £1.2 billion to £734 million. Are you disappointed to see that reduction, and how are you going to push back that figure in the future?



**Daniel Lambauer:** Yes, it is true that it is harder to find differential impacts. Partly it is what the chair has outlined. We are coming in earlier and earlier now in programmes, and because we are coming in earlier, it is a bit more difficult to see the cause and effect, and to quantify it as we could in the past, because, as you may know, we get audited on all these figures and the Departments have to agree them. That is why there is a big part in the strategy about how we want to think differently about how we can recognise undoubtedly the value we are adding. The chair has just mentioned a couple of those. So that is the main reason why the figures are going down. Every other impact measure—we have a range of them—is on the up, including the feedback from the audited bodies and the feedback we get from MPs. The acceptance rate of recommendations is 94%. But because to get a differential impact you have to have clear cause and effect and clear attribution, and it takes years, sometimes, to get there; some of the figures we are claiming now are five years old. It is getting harder, because we are coming in earlier on projects.

Q61 **Julian Knight:** Okay, but is there any particular strand or area you can think of, in terms of how you will effectively increase your impact with Government, when it comes to recommending measures that can bring about financial savings? Is there any way in which you can say to us today, “This is what we plan to do”?

**Sir Amyas Morse:** Rather than saying financial savings, I talked earlier about prioritisation. I think that prioritisation could deliver significant financial savings, or at least it could deliver much more efficient use of budget capacity. One of the situations we see in both defence and other major areas is an over-committed series of programmes, all trying to fit into a budget envelope that is what is affordable, but is, actually, a very tight squeeze. You end up making decisions that stay within budget but are bad value for money, and I am concerned about value for money for the taxpayer’s pound. If you say to me, “Is that a saving?”, well, it is not necessarily a saving, but it means that you are not wasting money just on trying to stay within certain financial limits. You are not suddenly stopping a project for a period of time, or extending the period over which it will run, to try to stay within a budget corset.

You can do that sort of thing by prioritising and saying, “Do we really need to do this? Do we still need to do it? Do we need to do it now? Could we do it later, and do it simpler and cheaper?” By the way, we do not often hear of that happening in Government. This goes back to an answer I gave earlier. I do not often see people saying, “When I’m starting a project, what is the cheapest, most straightforward way I could meet this need?”. I often see gold-plated projects that subsequently get into difficulty and have to be re-engineered. It would be much better to start with those projects being as modestly designed as possible. That is done far more frequently in the business world than in the public sector, so I am trying to push and encourage people to do things that way.

If we succeed in that, and I think we are succeeding—I took a very public stance on the need for reprioritisation; I have pushed and pushed it—that will be worth a lot of public money.



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**Lord Bichard:** We are also doing a lot more to ensure that our findings in one Department are fed to other Departments, so that they learn the lessons. Strategic seminars, roundtable meetings—those sorts of things—can influence and hopefully change the attitude. If you are working in a Government Department, you often tend to stay; your sights stay within the Department, and you need to be encouraged to look, for example, at how Great Western Railway's modernisation was managed, because there are big lessons there for the rest of Government.

Q62 **Julian Knight:** You mentioned that 94% of your recommendations were accepted. How do you ensure that this is followed through? How do you monitor this and make sure that when Government accepts these recommendations, they actually follow them through?

**Sir Amyas Morse:** I give credit to Meg Hillier as Chair of the Public Accounts Committee, because most of our recommendations go on to become recommendations of the Public Accounts Committee in their reports. It started earlier, but Meg is very vigorous about calling people back if they have not performed what they agreed. There is now a good chance that if you ignore, or don't properly deliver on, a commitment you have made—remember how this works: the Public Accounts Committee makes a recommendation, and Treasury on behalf of Government accepts that recommendation—now there are a lot of recall sessions where people are asked: "Why haven't you done this?", "Why didn't you accept this?", and "If you did accept it, why haven't you carried it out properly?".

So there is a powerful mechanism to drive through recommendations. When I compare us with many other bodies like us in the world, very few of them have this benefit. It is a great advantage in making our work matter.

Q63 **Julian Knight:** Are there any other means by which you ensure that the Government follow through?

**Sir Amyas Morse:** We come back to it all ourselves. We are constantly touching Departments. If you take a major Department such as Health, we do six reports a year on Health. If there is anything we have recommended to them, we keep coming back to it every time we see them.

**Daniel Lambauer:** We also have good relations, of course, with the audit committees. Many of the audit committees are following up on our recommendations, so there is a formal governance process in each department. That is also a way of ensuring it.

Q64 **Julian Knight:** You said that you used the Financial Reporting Council's audit quality review to compare yourselves with the wider audit profession. What does this reveal, and how do you compare with others?

**Sir Amyas Morse:** First of all, just to be clear, we don't just use those standards; they actually come to review us in just the same way as they review the big audit firms. It is very direct: we are given the rigorous once-over.



What they reveal is that we are in the pack at the moment, but that standards are rising very fast, and some of these big firms, using digital technology to support them, have raised their standards a great deal. That is one of the reasons we are making such a big effort, because we feel we must be able to put forth those same standards. That is what's going on. Yes, we have this independent review and, based on that, we are driving ourselves up. This is why the chair mentions quality so much, because it is a big effort for us to make sure we are up there on the quality level, not where we have been—which has been perfectly okay—but climbing fast to even higher quality.

**Lord Bichard:** Quality is probably our major priority over the next three years. We have got to stay competitive; quality is the way in which we get respect and credibility. It is good—we are in the pack—but it has got to be better. The financial audit development plan that we now have will, I hope, ensure that it is.

Q65 **Julian Knight:** So you want to be on the leaders' shoulder?

**Lord Bichard:** Absolutely, yes.

**Sir Amyas Morse:** That's right. We don't want anybody to be saying "This isn't really very good", and we don't think the public sector should be seen any differently from the private sector in terms of quality of auditing.

Q66 **Julian Knight:** I certainly agree with that. You say that you have embedded more routine consultation with your in-house experts into your quality assurance and value for money audit processes. What does this actually mean in practice?

**Daniel Lambauer:** We have embedded into the organisation some networks of expertise—for example, in statistics, economics and modelling. We have now got a routine process, so at the beginning of each audit—very early on, after the D&D—our auditors meet the various experts who are relevant and make sure that they get the best possible expertise. We have some really good experts internally who are helping our people.

Q67 **Julian Knight:** Do you have an example of how that has altered your work and brought about a positive outcome?

**Daniel Lambauer:** An example I like to choose is that we have done some work in the DWP area on jobcentre modelling. That is something that I think is about to be published, and it was very well received by the audited body. It was a very complex model, automatically calculating the best parameters—the distance of jobs—and modelling them wherever you are. That has been done for the modelling discipline. We now apply more and more of that discipline, as we have to, in our financial audit practice. That is a concrete example.

Q68 **Julian Knight:** Finally, what other steps are you taking to maintain and improve the quality of your value-for-money work?

**Daniel Lambauer:** We had a VFM development plan over the last two years. We are now coming to the third year. The first year was what I call

the pilot phase, and the second year was rolling it out on a large scale and implementing it. Our quality has improved remarkably over the last two years for VFM, in terms of the discourse we are having and the feedback we are getting from our audited bodies. The first thing is to keep maintaining that, while maintaining all of the new changes you have outlined here. That is the first step. Reporting new quality assurance procedures, and reporting much more consultation and collaboration, seems to be the future for us. Before we even did the financial audit side, we did a lot on the technology side for the performance audit front. The external auditor mentioned that these are favoured internationally. Maintaining it is one element of it, and then it is also about looking into the future, in terms of what MPs want. You change the way you want to get information, and we need to make sure our VFM products are keeping up with that.

Q69 **Julian Knight:** Okay. So this pilot is now effectively into execution.

**Sir Amyas Morse:** Yes.

Q70 **Julian Knight:** So the next time you are in front of this Committee, you will be able to tangibly show the value for money in pounds sterling, shillings and pence.

**Daniel Lambauer:** Sorry, of—

**Julian Knight:** Of value for money. You will be able to show the Committee that you have made further progress in that respect.

**Daniel Lambauer:** In terms of quality, yes, I am quite confident of that. As I said, we are already at a quite high standard, in terms of quality, but I am confident that we will have more.

**Julian Knight:** Thank you.

**Chair:** Thank you very much, gentlemen, for your evidence. We are most grateful, as always. It just remains for me to put the two resolutions that are necessary.

Does the Commission approve the NAO strategy in accordance with paragraph 1 of schedule 3 to the Budget Responsibility and National Audit Act 2011? Is that agreeable to the Commission?

**Hon. Members:** Agreed.

**Chair:** Agreed. Secondly, does the Commission take note and agree to lay the report before the House in accordance with paragraph 26 of schedule 2 to the Budget Responsibility and National Audit Act 2011?

**Hon. Members:** Agreed.

**Chair:** Agreed. Thank you, gentlemen.