Public Accounts Committee

Oral evidence: NAO Main Estimate 2023-2024, HC 1054

Monday 6 February 2023

Ordered by the House of Commons to be published on 6 February 2023.

Watch the meeting

Members present: Dame Meg Hillier; Sir Geoffrey Clifton-Brown; Mr Jonathan Djanogly; Peter Grant; Jill Mortimer.

David Fairbrother, Treasury Officer of Accounts, HM Treasury, was in attendance.

Questions 1 - 40

Witnesses

I: Gareth Davies, Comptroller and Auditor General, NAO; Daniel Lambauer, Executive Director, NAO; Rebecca Sheeran, Executive Director, NAO.

Examination of Witnesses

Witnesses: Gareth Davies, Daniel Lambauer and Rebecca Sheeran.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 6 February 2023. Today, we have two halves to our meeting. We are starting with the National Audit Office's main estimate for the year ahead. Later, after a short break, we will be moving on to a session on the UK Security Vetting service.

The National Audit Office, as many followers of this Committee will be aware, is the UK's independent public spending watchdog, paid out of taxpayers' money, auditing the work of Government Departments and public bodies and making sure that public money is spent efficiently, effectively and economically. The money that is granted to it is not granted directly from Government. It comes through the Public Accounts Commission of this House. This Committee obviously has an interest and we feed into that commission's work. We are a beneficiary, on behalf of the taxpayer, of the NAO's work.

Normally, we have the NAO representatives sitting as standing witnesses in the session. Today, we have Gareth Davies, the Comptroller and Auditor General, sitting in front of us, along with Rebecca Sheeran, who is executive director at the National Audit Office, and Daniel Lambauer, also an executive director at the National Audit Office. We want to ask you today about your plans ahead, in terms of both money and staffing, and your transformation plan, which I know, Mr Davies, has been a major part of your work as Comptroller and Auditor General, something you set in train when you took on the role.

Q2 **Mr Djanogly:** Good afternoon, everyone. In last year's main estimate, you set out plans to reduce staffing from 940 to 926. Instead, you have actually increased staffing to 948. Could you please explain why that is?

Gareth Davies: Figure 10 on page 43 of the document gives you the breakdown of what is behind that change. This time last year, we estimated what reduction in the additional resources that the Public Accounts Commission had given us to audit the pandemic expenditure might be possible in 2023-24. We anticipated that that work would be not gone completely but lower than at the peak of the pandemic. We think that that is right. We are still showing the 14 staff reduction on financial audit because of the reduced activity in auditing the pandemic expenditure.

What has changed since last year's document is that we now have better information about the impacts on the volume of our work of the change in the auditing standards around risk assessments and planning for each audit. That is because we have completed the pilot year of audit work using the new methodology.

We did that on six audits and we have been able to extrapolate the impact of that across all of our work, which is the plus 19 figure shown in figure 10 on financial audit. That is a net increase of five staff for next year on financial audit, so that is the main change. We also have a small increase in value-for-money staff of three, so that is a net increase of eight staff on the year.

Q3 **Mr Djanogly:** Where does the 22 come from?

Gareth Davies: The 22 is the gross increase of the 19 and the three, but it is offset by the reduction of 14 on financial audit from the pandemic work reducing.

Q4 **Mr Djanogly:** What is the transition of grades between the two figures?

Gareth Davies: The grades are similar. Essentially, it is staff at the newly qualified level who carry out the lead roles on our audits and support the managers. Most of the financial audit staff are at that level, both the planned reductions and the increase. That net five will be us looking for five more staff at that newly qualified level.

Q5 **Mr Djanogly:** Does that mean that overall costs of staff are increasing, or are you in some sort of transitional phase where actually they are going to come down again?

Gareth Davies: There are still a small number left of the staff we took on extra to audit the pandemic. That is because that work has not gone entirely. This is the bulk of it that was remaining, but there is still a small amount left for next year. You should see the last bit of that coming out of our figures in 2024-25, which we anticipated last year. We do not know, of course, about any other changes, so we always make it clear that these are our best estimates looking a year ahead, but we will be able to firm that up this time next year.

Q6 **Mr Djanogly:** Where are we as a trend, up or down?

Gareth Davies: We are reasonably flat at the moment. Essentially, what has been driving up audit work, particularly financial audit work, is these changes in auditing standards and the feedback that we and the big firms have been getting from the audit regulator, based on its reviews of our work. We have discussed with the Public Accounts Commission in detail the feedback we get, which is similar to that of the firms.

We are having to do more work, for example, on complex estimates being included in the accounts of public bodies. If you take, for example, the very large liability now in the balance sheet of BEIS for the bounce back loan guarantees that it has given, there is a complex financial instrument calculation lying behind that to the likely level of losses that will have to be borne by the taxpayer. That requires specialist audit advice and more work from us. It is a good example of the kind of trend that there is across many of our clients, requiring further work, more specialist work and therefore more cost.

Q7 **Mr Djanogly:** You seem to be making a case for roughly the same number of people doing more work. Would that be fair?

Gareth Davies: No. In this case, it is a mixture of a small number of extra people for this new auditing standard on risk assessment and, as you will have also seen in our plan here, an increase in our use of firms for specialist advice.

Q8 **Mr Djanogly:** That is more expensive.

Gareth Davies: Yes. It is for some of that more complex work, which is costly but necessary if we are going to satisfy the requirements of the regulator.

Q9 **Mr Djanogly:** You are saying that you plan to recruit a greater proportion of staff to work in your Newcastle office.

Gareth Davies: Yes.

Q10 **Mr Djanogly:** Do you think that that is going to lead to a shift in the emphasis of your work programme?

Gareth Davies: No, because we have staff working on all aspects of our work in both offices. It is not as if we do a particular kind of work only from the Newcastle office and so on, so it is not that. There are a couple of reasons behind our plan to make a shift and we are not looking at a radical redistribution of our staff here.

This is taking advantage of the fact that we are moving to new, more modern premises in Newcastle with about 10% more space. We anticipate filling that space within the next two or three years with more recruitment in Newcastle than we would otherwise have done and therefore slightly less in London. This is a modest shift between the two offices. Our London office will remain significantly bigger than Newcastle, but it allows us to grow by about 10% in the north-east.

Q11 **Mr Djanogly:** Are you saying that there is going to be a shift in terms of numbers, grades or type of work?

Gareth Davies: It will be across all grades. We have all grades represented, including one of my management team, who is based in Newcastle, all the way down to our trainee intake. We have value-for-money staff based there as well as financial audit staff. This is not a planned shift to one part of the skill mix or another.

One of the big advantages of us having that capacity in Newcastle is that it gives us access to an entirely different recruitment market. There are some really high-quality graduates coming through the universities in the north-east, people who want to stay in the region where they have studied. We have higher retention rates of staff at all grades in the Newcastle office, so there is a good business case for us shifting the balance in its favour.

Q12 **Mr Djanogly:** I do not think that you are saying that the higher retention will lead to a lower use of the private sector, because I think you said before that the private sector is more specialist.

Gareth Davies: Our use of the private sector is a big strategic question that we touch on in the document. This year's budget has shown us that the business case for outsourcing some of our work, in the way we have done for many years, is being challenged by the cost of the firms going up more quickly than our own costs, essentially. It is time for us to take a good, long look at what the right level of our use of the private sector firms in our work is.

We will always need some level of use, but around about 20% of our audits have long been outsourced to the firms, although not always the same 20%. The type of audits included in that has shifted around over the years, but since the Sharman review of the early 2000s we have outsourced about 20% of our work. That is now looking quite expensive as an option and so we are considering whether we should reduce that 20% and do more work in house. Clearly, that shifts the recruitment risk on to us, so we have to be very careful about that. We have to do it in stages. We have not made that final decision yet, but it needs to be a serious consideration. At the moment, we think we could save some money by insourcing a proportion of that work.

Q13 **Mr Djanogly:** Why just to Newcastle? Why not to other parts of the country?

Gareth Davies: We keep that option under review as well. Clearly, there are fixed costs involved in having another office. The reason we are in Newcastle, from many years ago, is that Government moved significant functions there themselves, so there was a business case for having a local audit presence, with HMRC and DWP in particular having large presence in the north-east. Government have a levelling-up policy and have long had a relocation policy for Civil Service functions outside London, so we are closely monitoring that.

At the moment, we do not see a critical mass in another region sufficient for us to contemplate opening an office ourselves. We are keeping a close eye on the West Midlands. DLUHC has opened a second office in Wolverhampton, so we are watching developments there carefully. The business case would have to be very strong because of the fixed costs involved in opening another office. At the moment, there is no sense in which we are struggling to service audited bodies from our two bases. If Government do not move, I am not sure there is much of a case for us moving.

Q14 **Mr Djanogly:** Why do you need this huge fixed cost in London that you are not now using at all, or very little?

Gareth Davies: We are using it. About 700 of our staff are based in our London office.

Q15 **Mr Djanogly:** What percentage of the office do you use?

Gareth Davies: We are now occupying about 50% of the building and letting out the other 50%. We are in the process of doing that with some of it because we vacated it. Essentially, our response to a level of hybrid working is that we do not need the full space we were using before. Around about 25% to 30% was let out before. We have increased that to 50%.

Q16 **Mr Djanogly:** Why do you need the building?

Gareth Davies: The business case reason is that we are on a peppercorn rent on a very long lease. It is, essentially, maintenance and upkeep.

Q17 **Mr Djanogly:** That is a very good answer.

Gareth Davies: We would be insane to move somewhere else in central London with that access to Westminster but separate, independent identity.

Q18 **Sir Geoffrey Clifton-Brown:** Good afternoon, C&AG. Last year, you spent 70% of your budget on financial audit work and 18% on value for money. You are now anticipating spending 67% and 20% respectively. Does this suggest a reprioritisation of value-for-money work, which we value hugely on this Committee, compared to financial audit work?

Gareth Davies: It does not signal a huge strategic shift, if that is behind your question. With our financial audit work, we have a pre-set number of audits that we must carry out and we must carry them out to high professional standards, against which we are regulated. That drives the level of work we need to do and therefore the cost.

On the value-for-money side, we aim to provide the Committee with at least 60 reports a year. Or plan is to do between 60 and 65 next year, so it is not a big shift in volume. We are reflecting the fact that our work is becoming a bit more sophisticated.

On the value-for-money side, we are using more data techniques. We have given some examples on that in the document here. We are looking at some pretty challenging topics, long-term drivers of value for money, such as sustainability and some of the big infrastructure projects, so making sure that we have the expertise in house to be able to do that work to a high standard. Rebecca, I do not know whether you want to add anything on the investments we are making in our VFM work.

Rebecca Sheeran: As you have mentioned, there is quite a lot that we are doing to make sure that we keep the work that we are doing fresh and bring new insights, whether that is through data analytics or making use of the investment we have already made in a series of senior experts in key areas, such as programme management, digital, commercial, financial and risk management. We are using that to make sure that we get to the heart of the drivers of value for money in each of the programmes that we audit.

We are also thinking an awful lot about efficiency, productivity and how we can use some of those data-led techniques to identify where there is scope for greater efficiencies, to make sure we are doing enough to look at the key enablers of efficiency across Government, as well as developing our approach to auditing resilience of infrastructure and services. They are some of the key areas where we are going to want to continue to develop our programme while maintaining that coverage of all the key areas of spending that you come to expect from us.

Q19 **Sir Geoffrey Clifton-Brown:** Can I go on to the Newcastle office? You would expect me to, as a chartered surveyor. In asking this question perhaps I ought to declare, from the register of members' interests, that I am a chartered surveyor. It seems to me as though you have a fairly good deal. You have a one-year rent-free period and you will definitely have a break clause at the end of the 10 years, not like the 25-year Government hub, so you have learned that lesson, thank goodness. Do you have any dilapidations to pay on the old office?

Gareth Davies: We have a provision in our accounts for that, based on our own estimates. We have not yet finished the process of concluding the exit of the current lease with our present landlord. At the moment, that figure we have in our accounts from last year is still our best estimate.

Q20 **Sir Geoffrey Clifton-Brown:** Can I move you on to the vexed subject of pay? Looking at your supplementary estimate, paragraph 23, you say that your audit principal turnover rate is 22%, compared to 11.5% in 2021. Your analysts increased to 29% from 20% in 2021-22 and your trainees increased from 4.5% to 12.3%. You also, in your graduates, interviewed 1,500 applicants and made only 69 offers, only 46 graduates and eight school leavers. Are you on the crest of the wave of getting into a problem with retention?

Gareth Davies: Last year, some of those turnover levels were uncomfortably high. As you will have seen from the supplementary estimate, which was actually focused on the capital for the Newcastle office, we explained to the commission at the time that we had actually awarded a part-year pay increase for our junior staff because we were underspending our staffing budget due to this level of turnover and the time it was taking to fill the vacancies. We did what we could last year to stem that trend.

What was behind it? First, there is a very strong market for accountants and auditors. The firms are still in the process of strengthening their ranks in response to the regulatory challenge they have been given after the scandals in the commercial world. There is a lot of recruitment going on on that side and significant fee increases for their clients as a result as well. We saw pressure from people getting very attractive offers to join the firms.

The second factor worth mentioning is a bit of a suppressed level of turnover through the pandemic, which was released last year as the economy emerged from lockdowns and restrictions. There were people who may have been ready to move on but had put that off in 2020 and 2021. Lots of them moved on in 2022. Those two things together gave us those uncomfortable levels of turnover.

Since then, as I mentioned, we have had the in-year pay increase. We have also, as we set out in here, carried out a review of our pay and grading structure to make sure it is competitive with the firms, because that is the key factor for us. From April onwards, we are proposing to implement a new grading structure for our financial auditors that better mirrors the way the firms present their roles, but also better fits what we need to run our business. We are also addressing things such as the pay ranges to make sure that they are competitive with the market.

That package of changes is a one-off increase in our pay bill next year, but we think that combination of actions on our part will better retain our key people. Our turnover level for the audit principal grade, for example, is now well under 20%, so that has come down. Our graduate recruitment programme is well underway for our September intake, as you would expect, and we now have 50 accepted offers for the eighty-something places that we have available in September. This time last year, we had 20 accepted offers, so we are well ahead of that and we are very confident that we will fill all of our trainee vacancies. The picture has improved, partly as a result of the action we have taken since last year to make us more competitive.

Q21 **Sir Geoffrey Clifton-Brown:** I wonder whether there is a bit of an earthquake about to happen. Can I test on what you have just said? In addition to that staff regrading, which sounds eminently sensible, you are offering a general 4% across the board. Is that sufficient when, as you have already referred to, the commercial firms have seen increases of between 7% and 9% this year? Is what you are offering going to be sufficient to stem the tide?

Gareth Davies: We have taken a lot of advice here. There is our benchmarking work that we do every year across the markets. We also listened to our non-executive remuneration committee members, who have experience in other sectors and understand where the market is at the moment, so we have had some really good advice on that. The combined cost of our regrading exercise and the pay award is 6.2% for next year, which is a significant cost.

Compared to other public sector increases, which are heavily in the news at the moment, it puts us in a good and realistic place to compete with the private sector. Unlike many other public bodies, we mainly compete with the private sector, so we have to be alive to that, but 6.2% feels to me to be a responsible level to be proposing for next year, as well as being realistic. It will help us tackle the problems of turnover that we have just been discussing from last year.

Q22 **Sir Geoffrey Clifton-Brown:** Can I pick up one other point that Mr Djanogly raised? It is allied to what he was saying about the 20% external audits. As well as the 20% external audits, you buy in quite a lot of professional work, valuers, pensions experts and so on. Have you any plans to reduce that as well as the external work?

Gareth Davies: We are pretty sure that we need the work, so the question is whether we provide it ourselves or buy it in. It is a "make or buy" decision for us. We do some of this ourselves. We have centres of expertise in our audit service line for pensions, property valuation and financial instruments. The people we have in house are NAO auditors who have trained and become experts in that area, rather than qualified valuers, actuaries and so on, which you would need if you were going to provide all that work in house.

The reason for us not doing that so far is just volume and continuity of demand through the year. This work tends to peak at the time we are doing our final accounts work, as you would expect, so we have not yet been able to make an internal business case for having a team of actuaries or a team of valuers in house at the NAO permanently. We will keep that under review. As the volume of the work changes over time, if those business cases change, we will have no hesitation in doing it. At the moment, it would not be sustainable for us to have that in house.

Q23 **Sir Geoffrey Clifton-Brown:** At the gathering of local government auditors that you and I attended a week or two ago, it was said there that an awful lot of time is spent on valuing fixed public assets—roads, schools and so on. Is this an absolute accounting requirement? Does this happen elsewhere in Government Departments or could you go in with a static valuation? Those assets are never likely to be sold.

Gareth Davies: The root of this is the decision many years ago that Government and local government would account for themselves on the basis of IFRS—the International Financial Reporting Standards—which is the same basis as public companies and so on in the UK, rather than, for example, opting for the International Public Sector Accounting Standards, which is how some other countries choose to account for their Government functions. The choice of IFRS comes with a lot of implications, including the one you have mentioned about valuing property, plant and equipment on the basis of depreciated replacement cost in many cases and requiring not annual full valuations but at least a check against the indices for the industry and so on.

For a long time, that had been done on a lower-key basis in Government and local government. Inspections of auditors' work in local government in particular have highlighted that the evidence base that auditors were gathering to sign off those accounts was less intensive than the regulator would expect in the rest of the economy. The effect of that has been to increase the volume of work. As you say, the finance function in local government is querying how relevant that is to a council that, for example, has no intention of selling its school buildings, road network or whatever.

There is a version of that in central Government as well. It is bit less of an extreme problem in central Government. For example, we have had exactly this challenge about explaining why the depreciated replacement cost accounting basis is necessary with the Environment Agency and the flood defence assets around the country. Those are all having to be valued for that accounting standard, which is obviously a significant cost for EA as well as for us.

Q24 **Sir Geoffrey Clifton-Brown:** Can I ask you some questions about your audit transformation programme, C&AG, please? Is it beginning to deliver the benefits in terms of improved audit quality and, if so, how?

Gareth Davies: We think so. It is too early for me to prove that, because we are just rolling out the risk assessment methodology to all of our audits this year, but we did pilots last year. Essentially, this process requires a more comprehensive version of what was previously happening.

The audit is required to assess the business risks of the body that you are auditing, so, in other words, what the financial flows are, what the risks to those financial flows are and whether we understand how well those are being controlled and how well future threats to that are being managed by the audited bodies, and then to translate those into audit risks. In other words, what are the risks that the accounts are going to be materially misstated?

We now have a more systematic basis for covering all those questions and for documenting that. Year one is more intense than future years, because obviously we are applying this methodology for the first time across all our audits. The pilots suggested that, yes, it takes a bit more time in year one, but you end up with more confidence that you have all the relevant risks covered in the right way.

To your question, that sets us up to have even better-quality audits in the future because of this better-quality risk assessment. Thankfully, so far it has not flushed out any issues we just were not covering properly or had not properly attended to, so that is reassuring, but I am sure that it will sharpen us up. It also sets us up for using data analytics and other new techniques in a more targeted way for the future.

Q25 **Sir Geoffrey Clifton-Brown:** Forgive me asking this question as a layman. I am not an auditor and never have been trained as an auditor, but there are these new technologies. You referred there to data analytics. You have a partner advising you specifically on this matter. You bought a program. It is a 10-year program. Is there not a huge danger that it will be out of date long before it expires?

Gareth Davies: Not the way we are doing it. This is specifically not a fixed software development that will then run for 10 years. With the partner you mentioned, we are building a new audit software platform that will deal with the whole audit process, including the new risk assessment that I have just been discussing.

It is modular and runs on the cloud. This means that, as new data analytic tools become available, so a better way of looking at the purchase ledger of the organisation, for example, we can plug that into this platform. It does not require us to rewrite all the software and start again. We just plug in the improvement and it carries on.

The technical basis for this is the Microsoft suite of Power BI tools. I do not profess to be an expert in the software development side of this, but it means that you can plug in modular improvements as they become available. We hope that actually this platform will last us longer than 10 years, because we will be upgrading it as things become available and necessary for us to use.

This is a pretty exciting time for the financial auditors in the NAO. We will have a modernised audit process when this programme is complete and they will see improvements year after year as we apply these new tools. The days of us picking a sample of 50 transactions from a balance to test one of the assertions in the accounts are not yet over—we will still do some of that—but we will be moving more to data analysts looking at the entire population of transactions and highlighting ones of interest that we can probe in detail. That is a pretty exciting vision of the future for audit work.

Q26 **Sir Geoffrey Clifton-Brown:** Have you switched off the old program? Are you now entirely on the new program?

Gareth Davies: No. We are still developing the software platform I was talking about. That is being piloted this year for rollout next year. We are still using our existing one and that will be available to us for as long as we need it. There is no question of us being left without a usable tool.

Q27 **Sir Geoffrey Clifton-Brown:** You say as long as you need. How long do you anticipate that will be?

Gareth Davies: We expect everybody to move on to the new platform this time next year. Most of our work will come off the old platform. There are exceptions to this. There are some accounts that are too sensitive to do on our corporate system, so they have their own arrangements, which will continue. For the bulk of our work, we expect it to be moving on to this new platform next autumn.

Q28 **Sir Geoffrey Clifton-Brown:** Is the aim of it that it will enable to existing number of auditors to do more work, that the existing number of auditors will do their work better, or a combination of both?

Gareth Davies: This is primarily a quality exercise to improve quality and insight. We think that we are going to learn a lot more about our audited bodies using these techniques, which we will obviously be feeding back to the management and the audit committees of each Department and organisation. That is the primary driver for this. There may be some efficiencies here too. We will be able to reallocate people to higher-level work.

The question that the audit profession has been wondering about for a long time, and still does not have a better answer to, is what the skill mix implications of this are for the future. Will we need fewer general trainees in the longstanding model of a pyramid model for an audit, with a lot of trainees doing the detailed work, but actually require, as well as a smaller number of trainee auditors, maybe a specialist cadre of data scientists to work alongside them as part of the team? We are in the early stages of working out the implications for us of that kind of question. That is what we are more likely to see, rather than a huge shift in numbers.

Q29 **Chair:** There is the data analytics that you and Ms Sheeran were describing earlier. A question that immediately popped up for me is about the benefits of that for the Departments you are auditing. You have just hinted there, C&AG, that there would be benefits for Departments of you sharing information. If you are doing reverse engineering of data and so on, is that something that they could then do? They do not have your software, so I am wondering how useful it will be for Departments, which are very bad at data, generally speaking.

Gareth Davies: It is good to look at what is happening at well-run large companies in the private sector. Exactly this debate is going on between their auditors and their management about how much of this can be built into the controls of the organisation so that the system itself being operated by the company generates exception reports, highlights transactions that need attention and so on. Then, the auditor can place as much reliance as possible on those controls operating within the company. That is a relevant model for us as well. We are already piloting greater use of that kind of controls assurance in some of our more advanced audits.

Q30 **Chair:** Would that require Departments to get their own software?

Gareth Davies: It really would. This only works where you have modern software that is properly updated.

Q31 **Chair:** How far behind is Whitehall?

Gareth Davies: It is a big challenge. As the Committee knows, replacing old and out-of-date software is a huge issue for Government Departments and public bodies. Leave aside the audit process. It is just that there is a large legacy system backlog that needs tackling. That is necessary for lots of reasons, but one of them is so that we can apply the most modern audit techniques and an efficient audit process as well. Certainly, we cannot implement controls assurance if the controls themselves are not reliable.

Q32 **Sir Geoffrey Clifton-Brown:** Allied to the Chair's question there, I am a mere layman on advanced analytics and reverse engineering, but it strikes me that it probably works better where you have a very large volume of similar transactions, maybe DWP, than on a small account with a lot of different quirks. Are you going to try it first on those very large accounts and then move to the different ones?

Gareth Davies: You are absolutely right. We will tailor our approach to the requirements of each organisation. Some techniques will be very relevant to HMRC and DWP, as you say, because of the vast transaction volumes. For other audits those techniques will not be very useful, because a more substantive audit approach may well be more efficient and useful in their case. Part of the skill of the audit manager and the director responsible for the audit is applying these techniques in the way that will give you the assurance that we need, but in as efficient a way as possible.

Q33 **Jill Mortimer:** You state in paragraph 2.5 of the report that you are prioritising returning the publication of audited financial statements to a pre-pandemic timetable. I wonder whether you could enlighten us a little bit about how much Covid still affects your ability to do your audits and things, and whether you can foresee how long that is going to go on for.

Gareth Davies: The pandemic had a big impact on the timeliness of Government and public body accounts. In central Government, it has not had as disastrous an impact as it has in, say, local government.

Focusing on the audits that we are responsible for, I was very pleased that last summer we were able to bring forward four big Departments back to the pre-recess timetable they had had before the pandemic, including some of our biggest audits, HMRC and the Ministry of Defence, for example, in that group of four. That was a real achievement by those Departments and our audit teams working with them.

We still have some big Departments that were post-recess in the previous year, so we are now working to bring more of those forward in 2023. If you take, for example, the Department worst affected by the pandemic, which is the Department of Health and Social Care, I was only able to sign that audit opinion in January, last month. We are aiming for November this year for the 2022-23 accounts for that Department, but that is a huge undertaking for the Department.

Remember, it is consolidating all the NHS trusts. It has its arm's-length bodies, some of them brand new, and we have the reorganisation of the commissioning function with the new ICBs. There have been substantial new challenges for that Department every year that have to be handled to bring the timetable forward.

Q34 **Jill Mortimer:** There have been a lot of schemes that have needed auditing that have been thrown up by the pandemic itself. Do you have more challenges auditing some of those Covid schemes? There has been a lot of fraud going on and things. If I could link in to something else as well, you talk about your five-year strategy. You are three years into it, but I am assuming that a lot of that strategy would have been formed pre the pandemic, so are those priorities still the right ones moving forward?

Gareth Davies: On the auditing and the pandemic, yes, you are right. A lot of both our financial audit work and our value-for-money work has been focused on pandemic spending in the last three years. I think that we are on report number 36 for this Committee, in terms of different aspects of the pandemic spending. That has had a big impact. As I said earlier on, it is reducing now, as you would expect, as we move on to other priorities. Could you remind me of the second part of your question? It was about our strategy, was it not?

Q35 **Jill Mortimer:** Yes, because those priorities are not the same now since you have all this extra work that has been going on.

Gareth Davies: We just finished the strategy as the pandemic started, so we had the call to make in early 2020. We are really glad that we decided to proceed with it. It was not dependent on a particular topic. It was deliberately not designed to be like that, so we were not trying to guess what Government's priority would be, but we were trying to make more of the NAO's capacity and knowledge in helping Government improve, so that we were heading off problems, rather than just repeating them in the future.

We were able to see through that fundamental strategic shift on our part. I think that we have had some tangible impact, with this Committee, on, say, Government's approach to digital transformation. We can point to where the work that we have done and then the Committee's inquiries, building on those reports, have helped Government move on. Overall, I am really glad that we implemented that strategy in the way we did. Of course, we are now in year four, so we are starting to think about what comes next. That is a topic for future hearings, I guess.

Q36 **Sir Geoffrey Clifton-Brown:** Looking at figure 5 on the actual estimate, your overall expenditure over the next three years is estimated to be falling in real terms. The percentage change over the period is minus 1.6%. Is that realistic?

Gareth Davies: We are much surer about 2023-24 than we are about the two years beyond that. We do not like making speculative changes that we cannot be very sure about two and three years out. If you take the figures for 2024-25 and 2025-26, it is essentially that, if nothing significant changes other than the ones we know for sure, these are the figures that we think are reasonable.

I would expect those, though, to have to change by the time we get to those annual plans, if you like, because we will obviously know a lot more. Apart from anything else, there is going to be a general election before 2025-26. The likelihood is that there will be some sort of shift in priorities and, therefore, focus for our work. That is just one example. There are lots of other changes, obviously, that we cannot anticipate between now and then.

Q37 **Sir Geoffrey Clifton-Brown:** It is more of a hope than an expectation.

Gareth Davies: It is the best so far based on the information we have. The one I do not mind being quizzed on in detail is 2023-24, because we are pretty sure about that.

Q38 **Sir Geoffrey Clifton-Brown:** We understood your caution. As you know, in this Committee we spend a lot of time looking at net zero in various Departments, which is partially instructive. Given that we have a 2050 target to meet, would it be possible to do a cross-Government checker as to how much progress we are making in a year?

Gareth Davies: I will bring Rebecca in on this, because Rebecca has been leading our work on net zero. By way of introduction, by checker I think you have something in mind like the Covid cost tracker, where we kept track of fast-moving decisions on spending.

Q39 **Sir Geoffrey Clifton-Brown:** I do not think it would be necessary to do it that quickly, maybe once a year, just so we could gauge at the end of each year how much progress the Government have made.

Gareth Davies: A lot of this is already done by the Climate Change Committee, which we work very closely with. Rebecca, do you want to explain how that works?

Rebecca Sheeran: You might recall that, about two years ago, we did some work looking across Government as a whole at how it was set up to deliver net zero and also some work looking at how central Government was working with local authorities. We very much saw that as almost our baseline overview. At the moment, most of our programme is focused on looking at specific interventions that are key to Government's plans for delivery of net zero, because we feel that that best complements and works alongside the overall progress reporting that the Climate Change Committee is doing.

Some of those areas of key spending that we are looking at are quite significant. We have work looking at decarbonisation of the power sector. We will look in due course at things such as Government's investment in nuclear over time, decarbonisation of home heating, as well as, increasingly linked to the point I made earlier about resilience, how Government are managing and responding to the risk of a changing climate, so the adaptation side of things. I am sure that we will look again, for example, at the investment in flood defences as well as developing this approach to how we look at the way critical national risks are managed and mitigated.

Gareth Davies: We will be absolutely focused on how public money is being used in pursuit of these policies. It is much tricker though, compared to Covid, to separate out what is purely net-zero expenditure. You can see that some of the examples in Rebecca's list there are there for purposes other than just climate change mitigation.

Our job, fundamentally, is to help shed light on how public money is being used in pursuit of these areas. That will be informing both making sure that the accounts are disclosing costs accurately in an informative way and our
VFM work highlighting where we think it is being used well and not so well.

Q40 **Sir Geoffrey Clifton-Brown:** Perhaps you could incorporate that somehow into the whole-of-Government accounts.

Gareth Davies: Certainly, in the private sector accounts are rapidly moving to include carbon accounting and audit assurance on carbon accounting. That is clearly coming for Government as well. We are involved in those profession-wide discussions on what the accounting standards for that are and therefore the auditing standards to follow.

It is early days at the moment. As the committee has already looked at how Government are doing this, there is a long way to go before we have a clear set of standards for doing this consistently across public bodies. I mentioned our next five-year strategy. I am sure that one of the big themes of that will be carbon accounting and the audit of that.

Chair: Thank you very much indeed. This Committee will make a recommendation off the back of this to the Public Accounts Commission about this estimate. You will have to wait to see what we say on that. Thank you very much indeed.