

# Public Accounts Committee

## Oral evidence: NAO Estimate and Strategy, HC 1188

Thursday 11 February 2021

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Members present: Meg Hillier (Chair); Shaun Bailey; Olivia Blake; Sir Geoffrey Clifton-Brown; Peter Grant; Sarah Olney.

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

Questions 1-26

### Witnesses

I: Gareth Davies, Comptroller and Auditor General, National Audit Office, and Daniel Lambauer, Executive Director, NAO.



## Examination of witnesses

Witnesses: Gareth Davies and Daniel Lambauer

**Chair:** Welcome to the Public Accounts Committee on Thursday 11 February 2021. We have two sessions today, back to back. The first is to do with the National Audit Office's estimate and strategy, which I will introduce in a moment; and the second will look at the Ministry of Justice in the round, in a recall session with the new permanent secretary to discuss her priorities and the challenges that that Department is facing in a number of areas—that will start at 11 o'clock.

In the meantime, we have with us Daniel Lambauer, the executive director of the National Audit Office, and Gareth Davies, the Comptroller and Auditor General at the National Audit Office, to look at and talk about their estimate of what they need to spend in order to carry out their work in the next year. Obviously, Covid and Brexit have changed things somewhat. I refer anyone watching to the NAO strategy document, which they have produced. They have also produced an NAO strategy progress update, an estimate memorandum for 2021-22, which was published earlier this month and is where we are getting a lot of our information from today.

I am pleased to welcome our witnesses—they are usually standing witnesses, but they are here to be asked questions today. I will hand over first to Peter Grant MP.

**Peter Grant:** First, may I draw attention to my entry in the Register of Members' Financial Interests? It records the fact that I am a qualified member of the same professional body that provides a large number of the NAO's qualified staff—

**Chair:** While you are doing that, may I bring in Sarah Olney MP on the same point? Ms Olney, will you declare your interests, please?

**Sarah Olney:** I am a qualified accountant with the ACCA and a former member of staff of Historic Royal Palaces. While I was there, working as a financial accountant, we were audited several times by the National Audit Office.

Q1 **Peter Grant:** I will leave it to others to ask questions about particular staffing plans, plans for recruitment and retention, and related matters. Comptroller and Auditor General, will you give us an outline of the impact that the Covid-19 pandemic has had, first on the NAO as an organisation and then on your ability to comment on the Government's financial activities during the year?

**Gareth Davies:** Yes, of course. As an organisation, we have been affected in the same way as every other organisation in the country, so we have had to adapt to working from home. That has been a relatively smooth process for us because, as auditors, our staff have been equipped to work



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remotely for some time. Our systems have held up well in the circumstances.

We have had to protect our staff and keep them safe, in the way that every responsible employer has had to do, so we have carefully followed Government guidance throughout. That has meant, clearly, that we have not been able to do all our site visits and client visits as we would normally do in an audit cycle. We can say a bit more about how we have adapted to that, but it raised technical issues as well as issues of logistics.

I take the opportunity to say a thank you to all our teams, who have not only adapted quickly to that situation, but have shown real innovation in working with Government Departments and other finance teams to come up with technically sound ways to get the evidence we need, even though they were working remotely. That has been a major achievement.

On your question about the work programme for the NAO, I have already mentioned how our financial audit has had to adapt to remote working. Clearly, the content of our work programme on auditing Government spending has changed quickly to take into account the large increases in spending and the unplanned aspects of the Covid response so, as the Committee knows, we have now produced 13 or 14 Reports on major areas of spending in response to the pandemic, including PPE procurement, the shielding programme and the homelessness initiative, and then the very large economic schemes such as the furlough scheme and the bounce back loan scheme. We quickly had to adapt our programme for that, and I am pleased that we have been able to maintain a reasonable level of balance despite that.

We have not abandoned our focus on the long-term drivers of value for money in public spending, including major infrastructure programmes. For example, we reported on the broadband scheme that the Government are responsible for and updated our work on HS2. We have also been able to tackle areas that are relatively new for the NAO but obviously are really important areas of public spending, such as the Government's net zero commitment and the spending implications of that. While responding to the pandemic in an agile way, I think we have also managed to keep balance around our programmes.

**Q2 Peter Grant:** There have been a number of occasions during the year when the Government have moved very quickly to spend sometimes very large amounts of public money. Do you have any unresolved concerns about the way in which these decisions have been taken in relation to the need to ensure the proper scrutiny of spending decisions?

**Gareth Davies:** I think the evidence in our Report shows that there has been, first of all, some very impressive and quick scaling up of important systems to support people. I think particularly of the furlough scheme, for example, through HMRC, and how quickly money was able to get to people who clearly needed it urgently in that situation. There have been some very well-managed elements of the scale-up.



However, I think our Reports also show that there has been some serious risk taking, which was sometimes necessary in that process, but we do not think that all risks have been managed as well. Our procurement Report, for example, highlighted that although everyone accepted the need for urgent procurement of PPE in the first phase of the pandemic, I do not think it was also necessary to lose transparency over how that money was spent and how the documentation of those decisions were set out.

**Q3 Peter Grant:** Thank you. One theme that the Committee has commented on in a number of our Reports has been the fact that, although there was a degree of planning for the public health response to a global pandemic, there was very little planning—in some cases none—as to the response needed from other Government Departments. That meant that, for example, the furlough scheme that you mentioned and a lot of other financial support schemes, either for individuals or businesses, had to be put together and implemented very quickly indeed. To what extent would you say that the need for speedy implementation of those schemes was allowed to take precedence over the need to ensure value for money and to protect the public purse against misconduct?

**Gareth Davies:** Some of that was just sheer necessity. Given the situation we were in, things clearly had to be done very quickly. The question then is: in that situation, how were the compensating controls put in place, where that was possible? There is clearly a question about longer-term learning from this, so that we do not find ourselves in a situation where we are as unprepared.

We have also been able to look at some international comparisons in these areas. Clearly, as a country, we are far from alone in not having detailed plans for something like this. It is only really some of the East Asian countries that have been well prepared for this kind of pandemic, because of their experience of SARS, for example. Very few western European countries had explicit contingency plans for shutting down their economies in the way that they have all had to this time round. I don't think we find ourselves in an unusual position.

However, at a more detailed level, I think the issue that we have missed here is transparency, although we have already mentioned it. I do not think any of that delays the processes being followed. I would argue that, where you cannot use competition in awarding contracts, it is even more important that you are immediately transparent about the decisions you have been making and that that information is in the public domain as quickly as possible. It is not that urgency is not an excuse for not doing it; I think the urgency is actually an even bigger reason for ensuring transparency. That is an important point to raise.

The other important bit of learning here is that sometimes the urge for speed went a stage too far, despite the extreme urgency of the situation. I think of bounce back loans, for example. Our Report showed that the target time for issuing those loans was reduced to 24 to 48 hours, which didn't allow time for even basic credit checks. I am sure we will find that, with just a few more days to do the necessary checks, we could have



avoided either fraudulent requests for loans or loans to businesses that were already clearly not going to be able to repay the money.

- Q4 **Peter Grant:** One final question from me for now. We maybe need to put on the record the fact that some of the decisions about judging requests that you have mentioned are decisions that are properly decisions for Ministers, and as long as they are able to explain the reasons for the decision, a lot of the time it was within their powers to take those decisions. We do have to be careful about doing everything with the benefit of hindsight.

Having said that, with hindsight, if the major Government Departments had had contingency plans that had set up, for example, even the outline of how an employee furlough scheme might look and that had begun to identify the ways in which you could select types of businesses or types of self-employed businesses, for example, to be supported, would you have expected to be in a position just now where you had a slightly greater degree of comfort as to the way the public expenditure had been controlled?

**Gareth Davies:** I am sure you are right that, with more planning notice, we would be in a stronger position on that level of assurance now. I suppose the one thing that we can take from this is that we now know that this kind of thing can happen, so learning from this should ensure that we have a stronger set of arrangements that can be triggered when needed and, crucially, that they are less crude in the way in which we can identify people entitled to support and so on. Part of the learning from this is to be able to better target the available resources in the future.

That applies not just to the furlough scheme that you mentioned. We issued a Report this week dealing with the shielding programme. One of the big messages of that Report was the inability to accurately target the support that was provided for food and medicine supply, and so on, to people who were asked to shield, because of the poor quality of the data that was available. Again, that is an area where we can ensure that we have got high-quality data, just in case it is required for something similar in the future.

- Q5 **Sarah Olney:** In your Report, you draw attention to the fact that you have had a number of audit risks to manage this year, certainly in relation to Covid, as you have just been talking about, and how that has made it difficult to provide an accurate valuation of assets, for example. I wondered if you had been thinking about the long-term impact of coronavirus on things like valuation of assets and how that might inform your work in future years.

**Gareth Davies:** Yes. Because there is so much to focus on in the short-term thinking, some of that long-term thinking is still to develop, to be completely frank. For example, for 2021—because clearly the current year's accounts will be the ones carrying the very large increases in expenditure—we are very focused on the audit risks, on, as you say, asset valuations, but also, for example, in the Department of Health and Social



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Care, the £60 billion of supplementary estimates approved to cover some risky areas of spending, including PPE, Test and Trace and so on. We are very focused on those audit risks for the coming round of accounts audits.

As you say, in the future I think there are some significant areas likely to be affected by the pandemic. You mention asset valuations. Clearly, as we understand the impact on the property market, including office buildings that Departments use, there is understanding the impact on that market.

I would also point to the very large growth in the loan book the Government are now carrying, including in Departments that are not used to administering loan books, such as the bounce back loan scheme in BEIS and various loans to the culture sector and the charity sector in DCMS, for example. An important area for audit attention not just this year but into the future will be: how is the value of that loan book being reflected in the accounts of the Departments involved and, particularly, is there a realistic estimate of bad debt associated with those?

- Q6 **Sarah Olney:** To what extent, when you are audit forecasting, might that be affected by not just coronavirus but the Brexit impact and various other issues? This has been a year of financial shocks in so many ways. In terms of forecasting, how might your approach to that have changed?

**Gareth Davies:** Obviously, we expect the management of each Department to be making forecasts based on the best information available to them. Our audit approach will be the same. It will be, "What information have you taken into account in making these judgments, which have influenced figures in the accounts, including the disclosure notes? How robust are those evidence sources, and have you really subjected them to critical review?" That is an area where we still find a lot of points. People take information from experts sometimes without applying a proper level of critical review to it. A really important part of the audit process is that we challenge that and make sure it has been fully assessed. It is too early to speculate on what that means for the accounts in any detail, but it has really focused our attention on that area of audit, which was always important but is increasingly important, given the level of risk now.

- Q7 **Shaun Bailey:** A few questions from me. Mr Davies, in 2019 you certified 78% of your reports, and obviously in 2020 that figure dropped to 41%. I appreciate, given the unprecedented circumstances that we have found ourselves in, that everyone has been stretched. What is that final figure now as we approach the end of the year, and what are your targets for the coming year to get back towards that 78% level?

**Gareth Davies:** Those percentages are the number of audits we completed by the parliamentary recess in the summer, so it is, in effect, the end of July. That is obviously where we and the Treasury aim to get all our audits, and in previous years that has been the pattern, with exceptions in some cases.

You are right that in the summer of 2020 we were able to audit some Departments, including some big ones that had been heavily affected.



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Probably the most notable one was DWP, and we were able to complete that audit before the summer recess. For others, it has been a significantly bigger task. I have now been able to sign off all the major Department audits for '19-'20. The last to be signed off was the Department of Health, maybe not surprisingly. The picture for the coming round—2021 audits—is that we expect a few more to be done pre recess this year, but it is not a very different picture from last year.

As I was saying to Ms Olney, the money that has been spent on the pandemic is in the 2021 accounts, not last year's, so we are very conscious of the scale of the audit risks that will need to be properly considered in, for example, the Department of Health accounts, as I have just mentioned. If you just take the Business Department, for example, all the bounce back loan guarantees and so on need to be properly reflected in those accounts. We know how risky an area that is already.

We have additional significant audit work to do. Clearly, we and the finance departments have been affected by this latest national lockdown. Whatever it is, it is certainly not positive for being able to crack through the work that is required. All that means that we are going to be in a similar position this time around, with a proportion of the Departments still having to go post recess, in terms of their completed audits, and then we have a collective target with the Treasury and the other Departments to bring everything back pre recess for the summer of 2022. That will be quite a challenge, actually, but knowing that that is our target now means that we are already planning for what that means for resources so that we can switch from finishing off audits in the autumn this year to going straight into planning to bring things back to pre recess in 2022.

**Q8 Shaun Bailey:** That is really useful, Mr Davies. Further on that, in response to Mr Grant and Ms Olney, you said that you are obviously focusing on the here and now, given the situation we are in. Have you picked up any operational lessons along the way that you have tried to apply to the work that you are doing, so that once we are hopefully beyond this at some point, you can streamline your work within the NAO?

**Gareth Davies:** We are learning a lot—particularly the forced learning from working remotely. There are some things that I am sure we will not go back to doing the way we did them before, because we have been able to accelerate the exchange of information electronically to carry out our audit tests remotely perfectly robustly with the level of evidence and challenge that we would need.

There are some areas where that has not been completely satisfactory. A classic example that is always used by auditors is that where stock is a material item in the accounts, there is a need to physically verify the stock-count process. We came up with lots of cunning ways of obtaining that evidence last summer, but I am sure we will need to go back to some physical visits this time around and next year. This has helped us prepare the ground for a big change in our audit methodology that was coming anyway. Like all the firms, we are adapting to new technology that allows much easier analysis of large datasets. We are moving to a situation in the



next few years where we will be essentially downloading the ledger data from each of our clients and testing full populations of data for the things we need, rather than just samples. It does not mean that sample testing has gone forever, but it is a big shift that is coming through the audit industry. Actually, this experience has helped us prepare the ground for that a bit faster than we were expecting. It has certainly given us insights into those areas that are going to be most tricky, but also where we could get most efficiency improvement.

**Q9 Shaun Bailey:** On that point about data, obviously you have done a lot of work on streamlining access to data, particularly for stakeholders. I am curious to understand what you think the impact will be on the work that you do. How is that going to help you in streamlining your operational delivery?

**Gareth Davies:** Visibility of data is the theme behind so much of what is going on in the whole economy, not just public services. On visibility of our audited bodies' data to us, we have a new tool that allows us to download data directly, which is proving a very effective starting point. We are also making sure that the data that we are using is more transparently visible to the public and anyone else who wants to use it. For example, we have a tracker on our website that is updating, in quite a lot of detail, the amounts committed to and spent on the Covid response by Department and by initiative. That is the first time we have done anything quite like that, but I think that is a sign of things to come. An important part of the NAO's contribution is encouraging transparency and helping Parliament and others to scrutinise public spending with better information, so we will continue pushing on that too.

**Q10 Shaun Bailey:** Finally, on staffing—this question might be one for Mr Lambauer—obviously we have seen a staff increase of 88 new roles this year. Could you talk me through what those new roles consist of?

**Gareth Davies:** I will ask Daniel to add to what I am about to say. In summary, essentially this is a workload challenge that we face for the coming year. I have explained that just in the Department of Health there is £60 billion of new spending that was unplanned and that needs a lot of audit attention. Go through other Departments and you get maybe not as large but similar types of increases. We have a sheer workload challenge that we must address if we are going to properly give the assurance that Parliament would expect us to. We also have the same issue on our value-for-money programmes, as I said earlier. The bulk of it is to address that. Daniel, are you able to give a clearer breakdown?

**Daniel Lambauer:** Yes. It is exactly what the C&AG has said. Around 60 of the 88 are additional staff involved in national audit work. Twenty are for VFM. We are also still planning to recruit three people next year for our knowledge hubs, where we are producing our "Lessons Learned" Reports. Then there is a very small, definite proportional increase in our back office, and we need a very small back office increase to ensure that you can service them properly. But there are also one or two posts in our information security team, in line with information security risks, which of



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course are different in the modern working environment. So, 60, 20, three and five.

**Q11 Shaun Bailey:** How does that level off in terms of your average staff turnover in a year?

**Gareth Davies:** We have had lower turnover this year. I think most employers have found something similar. Obviously, as the wider economy suffers, there are fewer opportunities. I would like to think also that we are attractive because we are doing good work. We are running at about two thirds of our normal turnover level, which is a significant difference. That is helpful, actually. Given the workload increase, it is helpful that that does not translate into a large recruitment requirement for us, because we are retaining more of our staff. But clearly, I am never complacent about, because the audit skills market in particular is very tight. It can pick up very quickly, and as soon as activity in the private sector picks up, we know that we lose newly qualified and other staff to posts in the firms. Our approach to this is obviously to continue to try to retain our staff, because they are well trained, very experienced and of high quality, but also to prepare ourselves if we do need to increase our recruitment activity as soon as that shows signs of changing in the market.

**Q12 Shaun Bailey:** Finally, we have talked a lot about new staff, but what investment is being made into existing staff, particularly on internal progression and professional development, with a real focus on retention? It sounds like you are doing some work on that.

**Gareth Davies:** That has been a big focus of our new strategy. Alongside our external-facing strategy, we have an internal development plan for the NAO to ensure that we are well placed to deliver it. The centre of that is our people work. We have completely refocused our people development activity. We have changed our line management arrangements, so we now have a new structure of performance coaches, who are specially trained to help people with their personal development in a much more focused way than we have had before. We have overhauled that training and development programme to ensure that it is relevant to the work that we are now asking people to do, particularly in digital skills and so on, which we need more and more of for the future.

We have a big inclusion and diversity programme as well because, again, like most other organisations of our type, we still have some way to go before we have gender equality at senior levels all the way through the organisation. It is getting there, but it is not there yet. Similarly, on BAME representation at senior levels, that is not getting there yet, and there is quite a lot more to do. Collectively, that adds up to a big people agenda for the organisation. Again, I am really pleased that we have been able to keep the momentum on that despite the external pressures on us in the last year.

**Q13 Sir Geoffrey Clifton-Brown:** C&AG, good morning. To follow Mr Bailey's question on the sort of people you recruit and the effect that is having on gender equality and BAME representation, what percentage of the people



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you recruit are professionally qualified and what percentage are training on the job, as it were, through apprenticeships and other methods?

**Gareth Davies:** I will ask Daniel to help me with the numbers on that. Anyone who we recruit into an audit role or a VFM role beyond the trainee cadre is qualified—that is one of our requirements. It is 100% at that level. Our trainee programmes run at about 70 to 80 graduates and school leavers—it is a mixture of graduates and school leavers each year. We have run a very successful summer intern programme for the past few years, where we encourage 12 to 15 interns, with a focus on ethnic minority interns and those from lower socioeconomic groups, to get some experience working with us in the summer, and then to apply to our graduate scheme. Last year was our most successful yet, when all 12 not only enjoyed their internship with us but were then successful in being offered places for the graduate scheme. That is an important driver of more varied recruitment at the trainee level. Daniel, do you want to say something about the numbers?

**Daniel Lambauer:** That sums it up really well. In general, we are a training organisation, and the vast majority of our people—70 to 80—come at graduate level and are trained up. Even on the VFM side, we are primarily hiring analysts at junior levels, and they are then trained up even more for the organisation. Where that is not enough to meet the workload demands we have, we will recruit externally, directly in the qualified accountant market. It benefited in between these years. This year we are probably aiming for 10 to 15, although I do not have the precise numbers with me. If you do want to know, I will need to submit that afterwards. That gives you a rough sense; it is primarily trainees and graduates coming through our own graduate training scheme and then getting promoted at the end.

Q14 **Sir Geoffrey Clifton-Brown:** Thank you, Mr Lambauer. C&AG, you have talked about productivity and efficiency. How far has and will the future of the audit transformation programme improve productivity effectiveness in areas such as analytics, or automated trial balances?

**Gareth Davies:** It is going to be a big improvement on our effectiveness. I want to be really careful about this because the prime benefits of that programme will be the quality of our work. It is not a cost-reduction exercise for our audits. I very much hope that for a similar cost we get significantly more bang for our buck from the audit process, not just in technical assurance, so that we have got the right level of quality assurance against the professional standards, but actually genuine insight for those running the businesses that we are auditing. That is the big gain here. If we are able to use data analytics, I think all of the early work on this across other firms as well as us shows that we are able to report on not just exceptions that we have found that need attention, but genuine new insight about how the resources are being used in the organisation. That should read across into our value-for-money work in a way that it does not often enough at the moment.



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That is the big gain, I think. We have our staff focused on the fact that this is essentially a quality and impact agenda for us. Of course, if we can save resources by working in this way with big data, we will, but I certainly would not want the expectation to be that this is a big cost reduction exercise in the audit process.

- Q15 **Sir Geoffrey Clifton-Brown:** That answer may translate into my next question. In your report, you say that your net resource expenditure is up by 7% but your income is only up by 3%. Is there an opportunity to boost your income?

**Gareth Davies:** Part of that is, as cautious auditors and accountants, we obviously want to make sure that we are being prudent about our income assumptions. We are having to take into account the fact that one of the tenants of part of our building has not renewed, so we have a gap in income for next year for that. Obviously, we are trying to fill it as quickly as we can, but this is not a great time to be finding commercial tenants for central London office space, as you will appreciate. Longer term, we think there is a good market there, as we are able to offer very flexible and focused space for people who may be downsizing in central London, for example, but there is an income issue in the short term on that.

As you know, some of our work is paid for directly by fees that we levy on the bodies that we audit. That is where they are not Government Departments, essentially, but separate organisations linked to Government. The BBC is a good example. It pays a cash fee to the NAO for its audit. Some of our additional work driven by the pandemic risks that I have been explaining this morning is funded by those fees. When we are talking about large Departments—the Department of Health and BEIS, for example, where a lot of our increases will be this year in work required—that is funded by Parliament’s resources to the NAO rather than by a cash fee. That is why you see this gap between the growth in our resources required for next year and the income level.

- Q16 **Sir Geoffrey Clifton-Brown:** You would have thought that perhaps with the uncertainty in the world caused by the pandemic there would be more demand for your services—companies wanting more assurance that their audits are being done as accurately as possible.

**Gareth Davies:** Where it is a financial audit, it is obviously the auditor that needs to determine the scope to make sure that we have covered all the risks appropriately and met professional standards, so we are expecting difficult conversations with some of the organisations where we charge a cash fee because those fees are going to have to go up. We have reflected those assumptions in the document. Those conversations are definitely happening.

As you say, not everybody is resistant to that because they fully acknowledge the level of risk that they are carrying in their financial statements, particularly if you are evaluating the impairment of your debts, for example, by the pandemic. That is a tricky set of decisions to make, and quite a few of the audited bodies in our world have to make



those decisions. For example, if you are looking at the collectability of fines on the Department for Transport, for example, that is a challenging judgment to make in the economic conditions we now find ourselves in. Those discussions are happening and, so far, we are certainly not concerned that anybody is objecting to paying the required fee.

**Q17 Sir Geoffrey Clifton-Brown:** Your two main functions are, obviously, an audit function and a value-for-money function. I am never quite sure which complements which, or whether you keep them relatively separate.

**Gareth Davies:** They do complement each other, and the flow of information does flow in both directions across that work, as it should—perhaps even more so this year, where the big value-for-money concerns around the pandemic response, for example, have direct implications for the accounts and the audit of the accounts. We have a lot of interchange in those areas.

Our new strategy came up with the concept that Daniel has already mentioned, called our knowledge hubs. Those operate regardless of professional discipline. They bring together all of our knowledge in areas like digital transformation, major project delivery and so on. They draw on the expertise of both financial auditors and VFM specialists. We also have some staff who have both sets of skills and operate in both streams of work. Essentially, it is like a cricket team, where we have specialist financial auditors, specialist VFM staff, but some all-rounders in the middle of the order as well. So working out the right proportion of all that for the risks that we are facing is one of our resourcing challenges, which we try to do, but a big part of our agenda is to make the most of all of our knowledge, regardless of the work it comes from.

**Q18 Sir Geoffrey Clifton-Brown:** We see an awful lot of your value-for-money staff on the PAC. They do an incredible job and they are very patient with our sometimes rather simplistic queries—from me particularly, probably. So perhaps this is a good opportunity, formally, to send, through you, our grateful thanks to them.

My final set of questions: you mention, in the Report, improving outcomes. How successful do you think you have been in that?

**Gareth Davies:** Not successful enough. I hope, in some ways, that that always feels as if it is the case, because that is what drives us to want to challenge the way we are doing things—the way we are working with Departments and the Committee—to promote improvement.

I will give you an example of an area where we are trying to improve ourselves. As you know, we publish a Report every time we do a value-for-money review, and that includes recommendations for the Department concerned. We are looking critically at that whole process: how do we make the recommendations; how do we follow up that they have been implemented; and do we really challenge both the Department, actually, and ourselves, on the difference that implementing those recommendations has made? What are we learning from that process to make better recommendations in the future? That is a really important



cycle that I don't think will ever stop, but we are putting some new energy and resource into that effort.

We are also, for example, thinking about making all that much more transparent as well. At the moment, to find our recommendations you have to go into every Report and locate the ones you are interested in. I can't see any reason why we don't put all NAO recommendations on our website, for example, which we don't currently. That is one area where I think we can help promote better action in response to our findings, and therefore better outcomes. But there are many others as well that we are keen to work on.

**Q19 Sir Geoffrey Clifton-Brown:** One of the biggest areas I feel sorry for you about, in the NAO, was our Report on defence equipment. You were brought in 12 years ago—

**Chair:** It was 2012, Sir Geoffrey—not 12 years ago, I think.

**Sir Geoffrey Clifton-Brown:** It was 2012, yes—we haven't got quite to 12 years ago.

**Chair:** Nearly there!

**Sir Geoffrey Clifton-Brown:** It was to test the robustness of their plans. I have been on this Committee for two decades, and they still seem to be as far away from producing a proper budgeted plan as they were two decades ago. What more do you think you can do in an intransigent case like that to help them improve?

**Gareth Davies:** In some ways, I guess it shows the limitations of simply reporting the findings and expecting the public knowledge of those findings to drive improvement—because it patently hasn't, sufficiently.

I do not think there has been no improvement over that time. I think there have been areas in which the Department has focused on its equipment procurement in the light of our findings, but overall you'd have to say we have not made sufficient impact collectively on that process. In the end, it clearly takes a will on the part of those managing and funding the process to say, "How are we going to get in a position where we can be honest about what we can achieve with the resources allocated to this?"

The reason why that is so important is that the lack of that honesty, I think, has meant that we have ended up with worse value for money, because short-term fixes have had to be applied to keep projects moving on, but in a way that doesn't represent good overall value for money. So the big problem that has not been resolved is short-termism leading to waste, effectively.

Hopefully, we have the opportunity, with new funding for the Department and an integrated review on defence and security, to finally crack this issue, which is what does a country require, and has that been adequately addressed in the funding for it? As auditors we can't make that happen,



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clearly, but we can continue to shed as much light as possible on the real issues, so that there is less and less room for avoiding the clear messages.

**Sir Geoffrey Clifton-Brown:** Thank you very much; I hope your optimism is well placed on that. Thank you, Chair.

Q20 **Chair:** Thank you very much, Sir Geoffrey. Mr Davies, you mentioned in response to Sir Geoffrey that you are putting all the recommendations of your Reports on the website. I don't want to go into the pain of the PAC website. Would you be planning to include there, as well, issues around the follow-up—the actual impact of those recommendations, as well as the list of them?

**Gareth Davies:** Yes. Obviously, this is work in progress, but that would be the idea. There isn't much value in just knowing that we have made a recommendation; what you really want to know is, was that implemented on the timescale agreed and, crucially, did it have the effects intended? That is a powerful bit of accountability—not just for the Departments, but for us too.

Q21 **Chair:** Great. I think the Public Accounts Committee could take a leaf out of your book on that one.

I want to go back to the risks that you discussed a bit with Sarah Olney. In figure 4 of your updated estimate document, you have listed some of the very challenging risks—for example, the auditing irregularity in the valuation of business loans and the risk of irregular payments from the Department for Work and Pensions, because many controls and checks were eased. Obviously, this is part of the reason for your extra resources. Could you take one of the examples in that table and explain how you are setting up the methodology to do this, to reassure the taxpayers who have funded these extra resources that you are going to be on top of what Departments are doing to monitor the spending?

**Gareth Davies:** It helps that we have carried out the early reviews that we had this year and reported to the Committee. We know a lot about how these issues have been managed in the Departments affected and where the risks might lie; that is a head start in terms of planning the financial audits for 2021.

For example, on the thorny topic of PPE and the huge expenditure on that in the Department of Health in the year, we have been working closely with the Department. It has commissioned consultants to advise it on understanding where all the PPE that has been bought actually is. That sounds like a strange question, but that is a big issue because it certainly isn't all sitting neatly in an NHS store somewhere. We have amounts in containers in storage around the country, there is some still near the docks and there is still some en route from China.

Valuing that accurately at 31 March for the accounts is a difficult proposition, but it is not one that can be avoided either, because, unusually, it is a very material sum this year. As we know, £15 billion has been budgeted to spend on it in the year. That is just one example of



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where we are working closely already with the Department and its consultants to understand how they are getting a handle on where this material is, and how it is being valued. That includes taking in the issue of the age of this stock and at what stage it becomes unusable, and therefore valueless, in which I know the Committee was interested.

Getting that number right in the accounts is going to draw on all those issues and we are already planning to do that. This required us boosting our team in the Department of Health. Some of the recruitment we have mentioned already is focused on strengthening that team. We have recruited another audit manager to be dedicated to work with the existing managers on that team, as well as more junior staff. So a lot of work is underway to make sure that we can audit that element of the Government accounts properly this year.

**Q22 Chair:** You talk about getting in there early, which is something I know that the Committee and Parliament have very much appreciated. Often people talk about the National Audit Office and the PAC coming in after the event, so that has been appreciated. That has created challenges, but had you not done that, do you think you would be in as good a place to be challenging on some of these issues? Do you think you would ever catch up if you hadn't gone in early?

**Gareth Davies:** We would definitely have more catching up to do. We would know less about the risks and how they have been managed. Apart from all the good arguments around transparency and accountability for prompt work, it has certainly helped us with the audit planning process this year. That would have been a much bigger challenge. It would still need the same information, but we would be starting from a lower base, so that has helped a great deal this time around.

You are right that it comes with challenges, as well. We have been very aware of the need not to be an undue burden on people with very difficult jobs responding to the pandemic. Clearly, in many cases they are literally lifesaving jobs, so we have had to target our early interventions carefully. One of things we will do, as we stand back from this first year, is work out where that was effective and useful, and where we got that judgment call wrong or could have timed it better. That would be a useful exercise for us.

**Q23 Chair:** That is helpful, too. In your Report you talk about the challenges of looking at the economic stimulus packages. How are you going to go about measuring those? That is potentially quite political; there are a lot of different opinions and it is quite difficult to measure. Do you think you have the tools in your toolbox to do a good job on that?

**Gareth Davies:** I think so. The audit process is the one that our staff are trained to do, and to do well. We will need specialist advice, in some areas, but a regular feature of audit work is knowing when you need to seek independent advice separate from the experts who we use to advise management.



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For example, when we come to revaluing the loan book for bounce back loans and the assumptions that you would make about the collectability of those loans, it will be a very material judgment. Literally billions of pounds will be at stake on that judgment. We will first of all need to understand how the Department has made that estimate and the expertise that is relied on to do that, and then we will have to get our own experts, independent of the Department's, to challenge those judgements in an appropriate way and test their robustness. We will be very transparent about what we have done to do that and about the conclusions we have reached as a result in our Reports to the audit committees of those Departments and to this Committee, if you would find that useful.

**Q24 Chair:** In terms of the extra money that you are requesting, how material is this specialist independent advice that you are going to need on some of the projects?

**Gareth Davies:** We know we will need more of it than we would in a normal year, so we have made an allowance for that. It is very hard to be precise about it because we have not got to that stage in the process yet, but we have measured asset valuation before. There will definitely be some requirement there.

We talked about loans, which relies on your interpretation of some of the economic factors and the collectability of debt in those situations. Pensions is another area. Because pension valuations depend on assets, that is another area where we will have to make sure we understand the expert view on the impacts of what has happened on pension fund assets where it is a funded scheme.

**Q25 Chair:** In the Report, you talk about some of the work you are doing internationally, which is quite interesting, because we often as a Parliament want to compare internationally. It is quite challenging.

On page 17, paragraph 2.16, you say you have been able to draw on international comparisons to strengthen your ability to report on things such as Test and Trace and procurement preparedness with vaccines and so on. Can you explain what international work you are doing and what the challenges of doing that are? Is there any additional cost to you in doing that important international comparison?

**Gareth Davies:** I will bring Daniel in. Daniel is the executive team lead for our international work, so he will have something to answer there. On the pandemic work that you have mentioned, we have good relationships with our fellow audit offices around the world. They are particularly strong, as you would expect, with western European countries, the US and Australia.

We have used those networks, and we have jointly led a project among those audit offices to share available information on the pandemic responses to inform all of our reporting into our respective countries on international comparators. That work is at an early stage and there is a lot more detail to go, but it has been really helpful. It gives you a reasonableness check on the UK response. You can see it is broadly in line



with what has been possible in other countries, albeit we appear to be an outlier here, so let us find out more about why. Daniel, do you want to say something about how the international work is funded?

**Daniel Lambauer:** Sure. We have three streams in our international work. One is what we call international relations, where we compare notes with other supreme audit institutions. Naturally, we are orientated quite a lot to our European partners as much as partners outside the EU space. We also have really good links with our American and Australian colleagues. We recently also had a talk with our Canadian colleagues. We also have a small organ of international audit that we get fees for, and we have some technical co-operation projects as well where we work, for example, with overseas territories to help their audit capacity and do a bit of learning and development with them.

What you are referring to, Chair, is primarily our international relations work. We are not actually increasing our budget on this; we are just working in a more focused and better way. In particular, as has already been mentioned, over the years we have built up really good relationships across like-minded supreme audit institutions.

We have this year led on a Covid working group in the European Organisation of Supreme Audit Institutions. That allows us informal contact, which gives us much greater access to the in-depth knowledge that auditors have in their own countries; I think we have around 12 Reports on international comparator input.

Of course, we also give back. What we collect we also share with our colleagues in other countries who might also want to make use of that. So it is not an increase in budget; it is a re-focus of our activity and making use of the networks that we have built up over the years.

Q26 **Chair:** Thank you. There is lots more we would like to talk about there, but time is running on.

I move to my final question. In your budget, your estimate, you are looking to spend a little less on support for Parliament. In practice, does that mean fewer staff, fewer Reports, or a little less time spent with us? We can always streamline things—we are always happy to work with you on that—but what does that mean in reality? What will be the practical impact on the Committee and Parliament, if any?

**Gareth Davies:** You won't notice—that is the intention and, I am sure, will be the outcome. Essentially, the budget we have set for next year is the outturn of this year, so it is not actually a reduction.

Obviously, last year's budgets were set before the pandemic, but we had substantially less cost on travel and subsistence this year. We expect some of that to continue next year, even though the economy is expected to open up. We know that we will have a lower travel bill than the historical average. Essentially, we are just bringing our budget down to the outturn for the previous year, so you will not see any loss.

Actually, we have some work focused on improving our impact in supporting Parliament in a whole range of ways. We have improved our weekly newsletter to MPs, so it is more informative, looks ahead a bit further and gives people a better idea of what we are doing.

With your support, Chair, we have extended our work with other Select Committees as well, where there is a focused review that would benefit from NAO input—we have the resources to do that. We have worked with the Health Committee, the Work and Pensions Committee, the Defence Committee, the Transport Committee and others, where our skills have been helpful on one of their inquiries.

We will look to continue that and will ensure that we continue to improve our support to Parliament as a whole.

**Chair:** Thank you. I thank you for that support to Parliament, because we as a Committee receive a lot of input from colleagues across the House, across all parties, into our hearings. They are, I know, very appreciative and often approach me about the work that the National Audit Office is doing—often with requests for you to do extra things, of course. Your work is well respected.

It has been a very challenging time for everyone during Covid, but some of your early work—as you have just highlighted—might possibly get us into a better position as a country, as a Government and for the taxpayer generally, by being able to be ahead of it. We really appreciate your input and we will make our report to the Public Accounts Commission, which will make an ultimate decision on your estimate. I thank you very much indeed.