HOUSE OF COMMONS

Public Accounts Commission

Oral evidence: National Audit Office Strategy and Main Estimate 2021-22

Tuesday 2 March 2021

Ordered by the House of Commons to be published on 2 March 2021.

Watch the meeting

Members present: Mr Richard Bacon (Chair); Jack Brereton; Clive Efford; Peter Grant; Meg Hillier; Sir Edward Leigh.

Questions 1-47

Witnesses

I: Gareth Davies, Comptroller and Auditor General, National Audit Office, Dame Fiona Reynolds DBE, Chair, NAO, and Daniel Lambauer, Executive Leader, NAO.

Examination of witnesses

Witnesses: Gareth Davies, Dame Fiona Reynolds DBE and Daniel Lambauer.

Q1 **Chair:** Welcome to this meeting of the Public Accounts Commission on Tuesday 2 March 2021. We are here to take evidence from the National Audit Office, and we are joined by the new chair of the National Audit Office, Dame Fiona Reynolds, as well as the Comptroller and Auditor General, Gareth Davies, and the executive leader of the NAO, Daniel Lambauer. You are all very welcome.

Dame Fiona, we did see you in December, but having just taken on your role as chair, what are your first impressions? Is there anything that you have thought already would be a good idea to change?

Dame Fiona Reynolds: I found an organisation that is in good shape, actually: incredibly motivated and committed, with a lot of expertise. Everyone I have spoken to is driven by high standards, and is working really well together—amazingly well, given Covid—and I suppose my overall observation is that Covid has almost provided an opportunity for the organisation to explore new ways of working while cracking on with a very demanding workload and, indeed, our internal agenda. I am not looking for changes at the moment; I am looking for ways in which we can add value and build on success already.

Chair: Good, thank you.

Q2 **Sir Edward Leigh:** Good afternoon. I see that the NAO is taking on quite a lot of extra staff at a cost of £4.4 million, increasing the staffing level from 852 to 940. That is £50,000 per head. Is this really a good time to be doing this? I thought that the emphasis among Government Departments was to try and avoid recruiting at the moment.

Gareth Davies: This is driven by our workload, and it is almost as simple as that. The pandemic spending in the '20-'21 accounts that will be coming up for audit this summer and autumn amounts to £280 billion or thereabouts, and as you will be aware, a lot of that is in untested and quite risky control environments: for example, the amount spent on the bounce back loan scheme, on PPE for the Department of Health, and so on. We have now done our audit planning for each of the major Departments for 2021, and we have identified some very substantial additional audit risks on top of the ones that are already there.

That requires significant audit work; in fact, that is what has translated into this increase in staff for the coming year that you have mentioned. We think that this is temporary: as you will see as we go through the forecast for the two successive years, we see the numbers coming down. Obviously, those are tentative, because none of us yet knows exactly how long some of this pandemic spending will be continuing, but we will bring those numbers down as quickly as it is possible to do so, given our workload. That is the main reason for the increase.

Q3 **Sir Edward Leigh:** I think that is very important, because after all, you are the National Audit Office, and everybody is trying to deal with the pandemic. I know from my personal experience in the private sector that everybody is having to work from home. In the financial sector and the City of London, they are managing to cope extremely well. I just would have rather hoped that during this pandemic, as a National Audit Office, you could have set an example, rather than just increasing your staff. I really want a commitment from you that you can get back to your traditional level, and I am surprised at this figure of £50,000 per head. Surely, if this was a temporary crisis, you could be contracting work out or getting in temporary expertise, but we do not want to be committed to a larger workforce which we then cannot let go.

Gareth Davies: On the amount per head, we are talking about qualified auditors here, so those are not cheap people, whether that is temporary capacity or permanent staff. Our plans include a blend of both. We already have a number of temporary staff who will be helping us through this peak this year, supplemented by some permanent recruits as well.

Q4 **Sir Edward Leigh:** To interrupt you there, why do you need any permanent people at all if this is a temporary crisis?

Gareth Davies: Because we need an ongoing recruitment of permanent people to replace those who are leaving. Although turnover for us is down this year, it is still two thirds of its previous level, so even in this situation people are leaving for other jobs, either in the private sector or in other parts of Government; we need a permanent recruitment load just to replace skilled and experienced people who move on in the normal run of things. But without this additional resource, we wouldn’t be able to deliver to Parliament the robust audits that it will expect from us in these highly risky areas of the accounts for the coming year. I am absolutely clear that the resource is required. If we attempted to deliver the audits with the risks we know about with the same level of resource as this year, we simply wouldn’t be doing the job that Parliament requires. I am clear on that.

On your other point, can we guarantee that we will come down as soon as the workload allows us to? Absolutely. We will be reporting back to you on each of these occasions with our update on that, and explaining how the numbers have changed in the light of the development of the risks.

Sir Edward Leigh: Thank you for your answer; I have to say that I am not convinced. You can’t keep coming back to us and saying that your workload has increased and therefore you have to increase your staff. Your present people will have to work harder. But you’ve made your reply. I’m not satisfied with it, but I will let others ask their questions.

Q5 **Clive Efford:** Most of the extra resources you are seeking are focused on your statutory financial audits, with a much smaller increase—less than £1 million—in spending on value for money work, including in your responsive work. Last year, you published 60 reports, with 12 focused on Covid-19 and its impacts. Can we expect the same sort of output in

2021-22?

Gareth Davies: Yes. We will be maintaining the supply reports. The Public Accounts Committee depends on us providing around about 60 reports a year to match its workload, so that is our plan for the coming year.

We also have separate knowledge products, which some of this additional value for money resource has helped us to produce. There will be a new series of lessons learned reports, including on major projects delivery, and a report at the very early stage of the restoration and renewal of Parliament, drawing on our findings. We will continue to provide the value for money reports that the PAC expects from us, plus these knowledge products to spread good practice more effectively.

Q6 **Clive Efford:** In the last year, Covid must have required you to be incredibly flexible and to take on a considerable amount of additional work. Does the fact that you are not asking for more, and that the work relating to Covid will continue alongside your statutory financial audits, suggest that you have got a lot of spare capacity in the system, in order to be able to do that?

Gareth Davies: No, Mr Efford. We are asking for a little more value for money resource for the coming year. Of the 88 staff that Sir Edward mentioned, 20 of those are focused on our value for money work. That is how we will be able to maintain the broad coverage of our value for money programme with a sufficient focus on the Covid-19 value for money as well.

So, no—we are at absolutely the opposite of any spare capacity in the last year. In fact, my teams have done an amazing job in delivering the programme they have, flexing the nature of the work to cover the Covid risks as quickly as we did. We published 12 reports on different elements of the Covid response by Christmas, which is an exceptional performance by the teams, without losing the focus on other really important areas, such as major infrastructure projects.

People have worked extremely hard. It speaks to Sir Edward's point earlier that the teams have been flat out and continue to be so, and even with that, to cover the risks we need additional resource in the year ahead.

Q7 **Clive Efford:** Your report into PPE in particular got a lot of attention and it was quite controversial in the way that some people interpreted it. Is that a body of work that you will be returning to in this year?

Gareth Davies: Yes, we made several recommendations in that report which we will be following up in the coming months, and we will support the Public Accounts Committee as it follows up its own reports in that area, too. Obviously, that was procurement in one area of PPE; we are obviously looking at other areas of procurement across Government, too. So, we will be taking those lessons into that work also.

Jack Brereton: Chair, could I possibly come in on the staff issue?

Chair: Go ahead, Jack.

Q8 **Jack Brereton:** Thank you, Chair. I just wanted to follow on from what Sir Edward was saying, because I am slightly concerned. We have seen your costs increase and increase over the last few years, and I want to probe a bit more on your confidence about seeing them come down again in 2022-2023 and ‘23-‘24, as is in the plan. Are you confident that the budget will be able to come down again, and that we won’t have to retain the increase that you have seen here?

Gareth Davies: I hope so, yes. Obviously, we are making assumptions about the spending associated with the pandemic. It is safe to assume that the riskiest part of that spending is in ’20-’21—the year that we are about to audit—because that is where we saw the unplanned expenditure, at breakneck speed, on the major economic schemes as well as the health response. Even if the volume of expenditure continues to be high, it is safe to assume that the level of risk and, therefore, audit risk will be more manageable in the years ahead.

Q9 **Jack Brereton:** You are also increasing your spend on professional services—nearly a £1 million increase on professional services. Why is it necessary to increase that cost, and why can’t that be delivered in house? What are the benefits of those additional professional services costs?

Gareth Davies: That is with the audit firms delivering subcontracted audits for us. If we didn’t have the firms delivering that work, we would have to increase further our own resources to deliver it. We have contracts with several of the audit firms, and we outsource that work where there are particular skills that those firms have in greater abundance than we do, because they obviously have a wider range of sectors compared with the NAO audit teams. We focus our outsourcing in those areas, and we are proposing to cover the expanded workload that I have been describing, partly through the firms, with the extra million that you have mentioned, and the rest, the bulk of it, through our own resources.

Dame Fiona Reynolds: I wonder if I can just add to that. This is an issue that the board has spent a lot of time on, and I can assure you that none of us come to ask for extra resources lightly. In fact, we went through a thorough discussion about whether we could manage on existing resources. It was only through detailed scrutiny of the programme and the expectations of both Parliament and the public, and a real sense that these are tangibly increased volumes of work, that we have come forward with these recommendations. I can assure you that the board will work very closely with the Comptroller and Auditor General and the senior team to manage that process in subsequent years to return to something more like the current resource. As you know, we are already programmed to be below our 2010 levels of expenditure, so there is a longer-term trajectory here. But I can assure you that this is not something that we have done lightly, and we have spent a lot of time working it through.

Chair: Thank you, Dame Fiona, and I am glad that you made that point. When I heard one of our colleagues saying that the expenditure has gone up and up, that wasn’t actually my recollection. Let’s go to Meg Hillier.

Meg Hillier: Thank you very much, Chair—

Chair: I'm afraid you have turned into a Dalek, Meg.

Meg Hillier: Is that better?

Chair: Yes. You have to plug in properly—that does the trick.

Q10 **Meg Hillier:** I know from my postbag that you are getting a lot more demands, a number of which you have to knock back. You have done all these very important value for money studies as a result of Covid, but with the resources that you are using and the work that you are doing, the value is if you are helping Government do a better a job with taxpayers' money in future. Can you point to any tangible examples of where Government has improved what it is doing as a result of the value for money studies that you have done so far?

Gareth Davies: Specifically on Covid, yes. We have already mentioned the procurement work that we have done. We know that the Cabinet Office is implementing the recommendations we made in that report back in November. We are going back to follow up the impact of those changes in a few months' time, but we know action has been taken on that. We have concentrated a lot on transparency. We have a Covid cost tracker on our website, where we list the several hundred Covid response initiatives together with the spending to date. Apart from the fact that we need that to plan our risk-based audit work, we know that is being heavily used as well by MPs and Committees to inform their work programmes, so there is a significant transparency component to the work we have been doing.

On risk management, we have been working with audit committees across Government to share the lessons of all the work you have mentioned with them, and to help in their discussions about how they are managing their risk appetite in the very tricky phases of this pandemic, where Departments have had to quickly adjust their risk appetite, deal with the fact that speed was of the essence and then quickly regain as much control as possible, as circumstances allowed. Our teams have been working with all the audit committees across Government to help them oversee that process.

Q11 **Meg Hillier:** One of the outfalls of Covid is that lots of things have been put on ice or delayed—operations, other spending and other projects. What is your work plan to look at, if you like, the impact of Covid on business as usual, and how quickly can you do that to make sure that we are trying to guide Government about how best to manage the challenge of catching up on backlogs?

Gareth Davies: We already have some work under way on one of the highest-profile backlogs, which are those in the courts system. We have some work under way with that Department in that area. We are also scoping some work for the healthcare backlogs—obviously, there is a lot of concern about that as well—and the non-Covid planned and unplanned treatments. We had to leave a pause there because, clearly, everybody in the health service has been flat out in the latest peak of the pandemic, but as soon as we are out of that phase, we will pick up that work, too, so we can report to Parliament on how the health backlogs are being tackled. Those are two of the highest priority areas that we have in the programme.

Q12 **Meg Hillier:** Finally from me, you highlighted there that you are dealing with Departments that are under a lot of pressure, so how are you balancing that while maintaining the integrity of audit at the right time? The health backlogs are a good example of where the earlier you can get in and support and work with the system to find out where the problems are and highlight that at a strategic level, the better. How quickly will we see that work on health backlogs?

Gareth Davies: We are managing those discussions really carefully, as you would expect. The Department of Health and Social Care and the NHS particularly have had a very strong case for our being incredibly selective on the work we are doing with them so that we are taking up the time of people with critical roles in the pandemic response only when absolutely necessary. The fact remains that in the last year, we have delivered a lot of work on the health response, including the procurement of PPE, the shielding programme and so on.

That relies essentially on some mutual trust and respect here. Departments understand that we have a job to do on behalf of Parliament. They completely understand the need for rigorous audit. The question is about timing that intervention where it can be most effective and relying as much as possible on available information without having to take up the time of very busy people in frontline roles. That is the balance that we have been striking all the way through.

By and large, I think that has worked well, and we have been able to report to Parliament even on very sensitive and high-profile areas. It will mean, however, if you take the health backlogs, for example, that we will not be reporting on that until the early autumn, which is probably later than everyone would like, but that is the reality of not being able to take up the time of people running the NHS right now.

Q13 **Peter Grant:** Given that I am a member of the same professional body as a lot of the Comptroller and Auditor General's staff, I do not think it would be appropriate for me to get involved in questions around staffing numbers or related matters.

Mr Davies, I want to look first of all at some of the most common findings of your audit work in the last year. In particular, you have said that the Covid emergency has meant that very often, very substantial sums of money had to be spent or allocated very quickly, and at times, that meant that the exposure to risk, and possibly to fraud, was quite a bit higher than might normally have been acceptable.

Given that audit is a question of the balance of risk, clearly the balance shifts, and the risk of doing nothing becomes unacceptable. Has it been your experience that when decisions have been taken quickly, the Ministers or senior civil servants taking those decisions have done it with their eyes open? Do you feel that they have assessed the risks, understood the balance of risk, and then taken a positive decision that it was the right thing to do?

Gareth Davies: Yes. I would say that in nearly every case, there has been a process of that kind. As our reports have shown, some of that work has been more successful than others. We have seen a lot of accounting officer assessments setting out what has been considered in arriving at the pandemic response—*[Interruption.]*

Q14 **Chair:** We seem to have a technical hitch. Dame Fiona, are you still with us?

Dame Fiona Reynolds: I am still with you, yes.

Chair: While we wait for the C&AG to resume his link, perhaps you could carry on where he left off?

Dame Fiona Reynolds: I cannot carry on in detail from where he left off, but I can certainly make the point overall that as we reported in those studies, we recognise the intensity of the pressures that the Government were under, and the speed, so as they have had to make decisions, although I think it is clear that there has been a process, it has not always been a process that has resulted in the wisest use of public money and the most effective spend. We have tried to balance recognition of the reality with being critical where we felt it appropriate to do so. We will carry on trying to make that balance throughout all our Covid work. It is something we will see again, I am quite sure.

Chair: Mr Davies, do we have you back?

Dame Fiona Reynolds: It does not appear so.

Chair: We could carry on with Mr Lambauer, but I would prefer to have Mr Davies back in the room.

Peter Grant: I am not sure it would be fair to ask anyone other than the Comptroller and Auditor General to answer the questions that I have just been looking at, because he is the one with the statutory responsibility to prepare those estimates.

Chair: We will suspend for five minutes.

Sitting suspended.

On resuming—

Chair: Welcome back to the Public Accounts Commission. We suspended due to a technical flaw but we are back up and running with the Comptroller and Auditor General, Mr Gareth Davies. Peter Grant was in the middle of asking a question. Mr Grant?

Q15 **Peter Grant:** Thank you, Chair. I am sure the Comptroller and Auditor General is pleased to know that there is finally proof that he is just indispensable after all. I have no doubt his staff sometimes have doubts about that, but this could not have possibly gone ahead without him. Mr Davies, you were answering a question I asked about the decisions being taken, which, in the interests of urgency, may have exposed the taxpayer to a higher degree of fraud risk than would usually be acceptable. I think we got as far as hearing you say that your judgment was that the vast majority of the time, those taking the decisions had done it in the knowledge of the risks that were taken, and had accepted that the risks were appropriate in those cases. Is there anything else that you wanted to add to that answer? I wasn't sure what you were saying when we lost you.

Gareth Davies: I think that process has been better documented in some cases and better governed. So, for example, some Departments explicitly involve their audit committee in signing off those judgments, but not in every case, so that is a kind of process point, but a potentially important one. I think we are learning that the speed that was necessary to secure the economic future of some companies, for example, has worked well in many cases. But in the case of the bounce back loans, the speed that was applied meant that even basic credit checks couldn't be used. I think that has exposed the Exchequer to a significant risk of those guarantees being called on in the future. Obviously, all this was happening at breakneck speed, so it is easier with the benefit of hindsight to judge. We need to build all that learning into the design of schemes that could be available if required in the future.

Q16 **Peter Grant:** You have led on very nicely to the next question. This time last year, there was a full-scale emergency. I know that permanent secretaries have confirmed that sometimes they were almost literally having to make up schemes as they went along. We have now had a year of varying levels of restrictions. The Departments have also had the benefit of a year's advice from yourself and your colleagues, based on the experiences of earlier on. Have you seen evidence that the passage of time and the lessons of previous experiences have been picked up? Are you seeing better practice now than you were picking up earlier in the pandemic?

Gareth Davies: Yes, we have. Some of the extreme risks that were being run—I mentioned the bounce back loan scheme, for example; there are more checks now in place before the money is released in that scheme than when it was launched. You can see controls improving in those kinds of schemes. We also know that, similarly on the furlough scheme, in the latter phase of that scheme, there is much more transparency now. HMRC is now publishing the lists of companies who have benefited from the furlough scheme. That wasn't happening in the early stages. It was one of our recommendations, because of the deterrent effect. If companies who might be thinking of abusing the scheme or even just fraudsters who are thinking of setting up fake companies know that all that is going to be published as soon as they make a claim, there is a strong deterrent effect. That is a good example of where controls have been improved.

Q17 **Peter Grant:** Finally for just now, I appreciate that you have to be careful not to get involved in debates about policy decisions, but have there been any of these big ticket spending decisions where, either at the time or in hindsight, you felt that the urgency wasn't sufficient to justify the degree of risk that had been taken?

Gareth Davies: No, I don't think so. There is a clear rationale for the speed in all these cases. As you say, it is properly for Ministers to take those policy decisions about priorities and the trade-off of risk and speed. I wouldn't stray outside my remit to question the policy priorities in those cases. Our job has been to, first, report, in the aid of transparency, but also then to identify where improvements could be made and to make sure that those recommendations are made as quickly as possible, so that as we say, controls can be improved over the life of the schemes.

Chair: We are now going to move on to a section discussing the National Audit Office's strategy. I invite Jack Brereton to start this line of questioning.

Q18 **Jack Brereton:** In revising your strategy last year, you set out four key areas of improvement. Could you give us some examples of how you have improved and what has changed in terms of the delivery of those improvements? How has that improved the outputs more generally?

Gareth Davies: Yes, of course. The start of our strategy coincided with the beginning of the pandemic, but, despite that, I am really pleased that we have been able to make progress on all the priorities we set out in the strategy—maybe not always at the speed that we had intended, but tangible progress none the less.

We had a significant priority around making better use of our knowledge. We have started our programme of lessons learned reports—four of those—allowing us to share the accumulated learning on an important topic before things have gone wrong in a new programme. A great example of that is distilling our major programmes expertise to share a report on the early management of the risks around the restoration and renewal programme in Parliament, a report that would have been very difficult to do without that synthesis of knowledge from other areas.

So that is well under way and we have more of those reports on the stocks, the next one being around digital transformation across Government, which is a challenge for all Departments, so a good area for us to share good practice and learning. That is a highlight on the knowledge front.

On the audit quality and impact, this is a really big priority for us, as we set out in the strategy. We are now well into our audit transformation programme. This is the programme that will modernise our methodology. It will replace our software platform for audits, so that we can integrate data analytics and all the other tools that are now being used across the industry to improve the quality of our work and the efficient delivery of that.

That was always a multi-year programme, but we are now about to go into the procurement phase, to identify the partner who is going to work with us on the software platform and support us in implementing that over the next two or three years. We are about six weeks behind where I wanted to be when we set out the plan this time last year, all pandemic related, but that is not a strategically problematic delay for us and we are hoping to catch that up in the next couple of years.

On impact, we are working hard on the quality of our recommendations, to make sure that the recommendations we make really do deliver positive change. We are following up systematically to make sure that, where we have made recommendations, we know what has happened as a result. Actually, there is an accountability for the NAO there, as much as for the Departments, because we want to be sure that the recommendations that we are making are leading to the positive changes we anticipated, and, if not, we know why not and how to make better recommendations next time. There is significant progress there.

We are now working up added transparency around our recommendations, so that you will be able to go on to the NAO website and see all of the extant recommendations across Government in a way that you can't at the moment; you have to read the individual reports to see our recommendations. That ability to check on the status of our recommendations and whether Departments have acted on them will be another enhancement to our impact. We know that there are interested parties at the centre of Government who are keen to use that tool as well, to keep the pressure on Departments for improvement.

Q19 **Jack Brereton:** What further improvements can we expect to see by the end of this year, 2021-22?

Gareth Davies: The one I just mentioned will be in place and working, so that added bite of our recommendations being so transparent will be in place. We will be a further year into our audit transformation programme. Having procured our solution, we will be working with our chosen supplier to implement a new methodology, which we will be piloting, and be at the beginning of implementing a new software platform.

On the knowledge front, we will have another chunk of lessons learned reports under our belt. We are looking to engage with practitioners in Government in ways other than just through our reports. We always have done, but we want to be more ambitious, so we will have held the first NAO webinars based on these lessons learned reports, so that we can engage with people in a way that suits them, rather than expect them to sit down with a 40-page report and read it cold. We will be able to report back this time next year on those initiatives.

Q20 **Chair:** Thank you very much. Mr Davies, I want to ask you some more questions about the hubs, but first something that was said earlier about your proposals to improve your capacity for data analytics reminded me of something in the book, "The Art of Public Strategy" by Geoff Mulgan, which was published 11 years ago.

I was rereading part of it quite recently, and in the notes of chapter six, Mr Mulgan says, "I became increasingly surprised in the UK government," bearing in mind he worked inside Government for seven years solidly, "to find myself the only person at meetings who had been at the equivalent meeting five or six years previously. Often, all of the other officials and ministers had changed, leaving me as the corporate memory."

I spent 16 years on the Public Accounts Committee and I had the exact same sense that sometimes I was the only corporate memory. He goes on to say, "Not surprisingly, many mistakes risked being repeated. I proposed a fairly lean but comprehensive knowledge management system which would include lessons learned reports, directories of the officials who had led on previous programmes and projects, as well as more formal research and evaluations. The estimated cost was fairly low (under £3 million) but it failed to secure support from the Treasury." In all of your work, have you revisited the idea of Government itself getting better at knowledge management as well as the NAO doing it itself? It seems to me fundamental that you will not get the improvement or the learning unless there is a learning curve—will you?

Gareth Davies: I agree. There are specific parts of the Government that use that approach; I am thinking in particular of the IPA and major projects. There is a constant resource, with genuine expertise in the field and, increasingly now, mandatory training courses for senior responsible officials in charge of major programmes. They have to go through the courses run by the IPA if they are to be accredited to run a programme and, of course, the learning from previous programmes is built into those courses. There is a very structured way of doing that now that has teeth and—

Q21 **Chair:** For the benefit of our viewers, the IPA is the Infrastructure and Projects Authority and, of course, that refers to major projects. Can you remind us what the current threshold for being classified as a major project is?

Gareth Davies: I will get that wrong if I guess from here, but they are very big—

Q22 **Chair:** It is significant. It is over £100 million, so there is still a lot below that threshold that would not necessarily be covered by these kinds of evaluations and knowledge management, isn't there?

Gareth Davies: Yes, there is. Capturing the knowledge within Departments is still important, as well. You cannot entirely rely on generic project management skills—

Q23 **Chair:** That is precisely my point. It is extremely important in each Department as well as at the centre. To what extent do you see evidence of that happening? To the extent that it is not, are you preparing reports with recommendations that that might be dialled up?

Gareth Davies: I don't think Departments could say consistently that they are following the approach that you have outlined from the book, and that is a really interesting idea for us to return to. We are not at the moment asking them that specific question, but it is an important point and, as you say, a pretty low-cost way of mitigating the risk of losing knowledge.

Q24 **Chair:** I hope Mr Mulgan sells a few extra copies of his book as a result. It really is a very, very good read.

I would like to come on to the six special hubs that you have established covering different areas of expertise, such as project management and things such as commercial activities, which are each going to be led by a senior member of staff. Is the idea that the financial auditor for a given audit will seek advice from these hubs when they need to, or are they primarily there as training vehicles to spread knowledge across all your staff?

Gareth Davies: No, it is certainly not a one-way process. Our vision for them is that this is where we hold our expert knowledge on areas such as commercial contracting, risk management or digitalisation. If you take an area like commercial contracting, it is a very small team in the hub itself but as you say they are connected to our financial auditors, who are auditing the major contracts, and also to our value for money teams, who are carrying out reviews that require a significant commercial contracting component. It means that all our work, whether it is financial audit or value for money, is informed by up-to-date expertise.

Of course, it works the other way as well. It will often be a financial auditor in an audit committee who will identify a new commercial issue and can then bring that back to the attention of the hub and make sure that they remain up to date about developments across Government. The information flows in both directions, but a net effect needs first to be that all our work, whether it is audit judgments or value for money reports, is informed by the latest expertise. If you are a director responsible for auditing the Department of Health and Social Care, it is very hard to be an expert in all those professional disciplines at the same time as being abreast of all the risks in the Department. This just reflects the reality that we need to feed those people with genuine expertise as they require it in their work.

The hubs will also oversee the knowledge products that we talked about, so the report that is coming up on digitalisation is overseen by the director responsible for that hub. They will have their product stream as well as supporting the rest of the organisation.

Q25 **Chair:** How will you assess whether these arrangements as they develop are an improvement on what went before?

Gareth Davies: First, we will have a product line that we did not have before, so successfully delivering that will be one indication. Then, crucially, we are respected among the professional networks in these disciplines for the quality of our recommendations and advice—obviously, we regularly survey not just accounting officers and chief finance officers in Departments, but the heads of professional networks across

Government. There, we are looking to see that this development on our part is leading to greater engagement with our work, greater respect for our knowledge and expertise in these areas, and crucially, real traction on how Government is performing.

Chair: Thank you. I invite Meg Hillier to continue the questioning on strategy.

Q26 **Meg Hillier:** Mr Davies, in the update that you kindly provided to us, you talk about increasing accessibility. I commend the Covid cost tracker and I think the knowledge products will be an interesting way of seeing whether we get greater accessibility to Government to learn lessons about its challenges. I can see those two and you have talked about them before, but you also indicate that you can have greater accessibility to the figures underlying your work. Could you just explain how that will work and whether the information will be accessible to lay people or whether it is really for other finance people to understand?

Gareth Davies: We are essentially pushing for maximum transparency of the information we have used in doing our work. Clearly, where that is not our information, there are limits on that. The Covid cost tracker is a good example because that data is fundamental to our financial audits in each Department as well as many of our value for money studies. Rather than having to trawl through all that work to extract the information you might be interested in, we have put the raw data on our website in a way that is searchable. Increasingly, those kind of big data tools are helping transparency, but also serious researchers who want to do work and want access to public information in a way that is easily manipulated for them. This is a step forward for us—we have not done anything quite like it before. Where that is possible with other databases and it is appropriate for the NAO to make those transparent—it will not always be—we will do that.

We are also being more transparent about our work in progress because we get a lot of queries about whether the NAO is planning to look at subject x. For a while, we have had a work in progress section on our website, but in the past, that was updated only when we were shortly about to publish, whereas now we have a much longer view on our work programme, which is again of great interest to researchers and others in the field when they know we are looking at a topic. We are essentially pushing this where we can and saying how we are most transparent about the information we use and then the programme that that informs.

Q27 **Meg Hillier:** On the cost tracker, obviously at the moment it is money out the door. I guess it will come to maturity. Are you planning to update that and keep it as something that is live on a website? Secondly, you talked a bit more there about some of the data, but are you looking at including it in maps? You produce some very good maps that we like on the Public Accounts Committee, and all MPs like to know what is happening in their area. Is there any prospect of producing more of that and perhaps putting interactive maps on your website?

Gareth Davies: Fiona might want to add to this because the topic has come up in her discussions with our teams. We have strong data visualisation expertise—being able to use complex data but putting it in a form that is easily accessible, often, as you say, in the form of maps, but not always. Again, we are learning about where that is most effective and where it is not. We are trying to use it when we can really add value that way. To give one simple example, it was proving quite difficult for members of the public to find a report from their local council auditor, so we have got a simple map on the website that allows you to click on your geographical area and access the local government and health reports from auditors of those bodies in your place. That is a straightforward but good example that has improved the transparency of some pretty important accountability information.

Q28 **Meg Hillier:** Let me just go back to the Covid cost tracker. You are measuring money out the door. Will you go back and add layers of information once that money has been spent?

Gareth Davies: Yes, we have been updating that roughly every three months since we started doing it and each time we have put a bit more functionality on there. I think it is getting to a point where that is working well now. We will certainly update it in another three months. At some point, of course, it will be right for us to back off that, but at the moment these sums are so material to individual Departments and that resource that we have got on there, which is reasonably straightforward for us to keep up to date, is heavily used and is drawn on by people inside and outside Government, so we propose to keep that going in the meantime. Fiona might want to add her thoughts on the visualisation point.

Dame Fiona Reynolds: Yes, thank you very much. It is particularly about visualisation. It is partly about the fact that place-based policy and place-based implementation is going to be increasingly important and relevant. Yes, visualisation and the use of maps is very welcome. I think it gives an instant sense of connection for people. I think we are all very aware that Covid has played out in very different ways across the country geographically. There are all kinds of concerns now about how we understand those impacts and help Departments in future activity to understand the geographical dimensions of how spending has been made and could be improved. I think there is a strong place-based analysis to go alongside the themes and the departmental focus that Gareth has been talking about.

Chair: Thank you. I will invite Sir Edward Leigh to finish the questioning on strategy and then move on to the subject of support for Parliament.

Q29 **Sir Edward Leigh:** You are going to bring out an annual report. Tell us a bit more about that and how it is going to make a difference and cut through to the public and to Parliament, what information you are going to have in it, and how it will differ from an annual report in the private sector.

Gareth Davies: Obviously we produce our annual report with the accounts each year. We are expanding that and making it more punchy this time round. I think the Commission will be considering our annual report and accounts at its autumn hearing.

Essentially, we are structuring it around the same priorities as set out in our strategy, so the work we have been able to do on accountability and supporting Parliament to hold Government to account; the impact of our work, rigorously setting out where we think we have made a difference and where we have not; and what we are doing to improve all that. That is what we will find.

Clearly, it is a chance to comment on the major themes emerging from our work this year. Obviously, there will be particular focus on the Covid response work that we have been doing. By the time that report comes out, we will have shared more of our learning thematically from the Covid work.

For example, one theme I am sure will be in the annual report is around data quality. We have talked to the Public Accounts Committee and this Commission many times in the past about data quality, but the pandemic has highlighted even more the central importance of that, and some of the most successful bits of the pandemic response have been down to high-quality available data. If anything needed reinforcing around the importance of that to the whole of Government, then the pandemic has certainly done that. That is just one example of where the annual report will set out our learning and hopefully support further improvement.

Q30 **Sir Edward Leigh:** Thank you for that answer. In terms of engagement with Members of Parliament, like the Chairman I think I have been with this body now for 19 years, and every year there is a constant refrain about how we want to improve engagement with Members of Parliament. I wonder whether—no doubt you will give the obvious answer—Members of Parliament ever engage with you? Do they ever ring you up, write to you and say, "Thank you very much," or give suggestions about what more you could do, or is it just a sort of echo chamber with no echoes?

Gareth Davies: No, certainly not. It is a very lively correspondence bag. We have 1,300 pieces of correspondence a year from MPs and the public, and MPs outnumber the public in that.[1] You can see that it is very active. It is certainly not every Member of Parliament. At the moment, we send a weekly email out to every MP to explain what is coming up in our work programme and to offer a discussion with them on any areas that they are particularly interested in. We know that gets filtered out of MPs' postbags by assiduous researchers in some cases, so we are also planning some direct engagement with researchers so they understand the role of the NAO better and maybe don't filter out our emails to MPs before the MPs see them.

[1] Mr Davies subsequently clarified that while the NAO does receive around 1,200-1,300 pieces of correspondence, only around 90-100 per our last Annual Report are from MPs so they don't outnumber the public.

Obviously, particularly in a time like the one we are in at the moment, there is significant correspondence from MPs, raising a whole range of concerns, from national programmes to very specific constituency issues that they think we have a remit to help with, and my parliamentary team is very active in maintaining those links.

The other area that I will flag up is Select Committees, where I have a dialogue with the Select Committee Chairs in addition to the PAC. Select Committees are actually getting much more sophisticated in using our work, where that is relevant to the inquiries that they are holding. There is significantly more NAO activity in support of Committees, in addition to the PAC, than in the past. Obviously, we have to keep an eye on the overall call on our resources, but where we can do that then we are very keen to expand that work in support of Committees.

Q31 **Sir Edward Leigh:** Do you ever get complaints about your service, or congratulations?

Gareth Davies: Yes, we get both, like any big and complex organisation. As an auditor, you are sometimes the last port of call for somebody unhappy about something to do with public services, and so by definition those cases are often difficult and hard to resolve. Therefore, I wouldn't claim complete satisfaction from everybody who comes to us at the end of their tether, having exhausted the complaints process in a public service process, for example.

However, we are also sometimes able to get good results for people; because we have access powers, we can get answers to questions that maybe have been stonewalled in the past. Sometimes we prove very helpful, both to MPs and to members of the public.

We survey the people we directly audit on a regular basis to find out how useful they found our work, whether they found our approach to be efficient, and so on. We act on that feedback all the time; that is a constant loop.

Sir Edward Leigh: Thank you very much.

Chair: We are moving on to income and expenditure, particularly in relation to office space, and I think Mr Brereton has some questions.

Q32 **Jack Brereton:** You are planning to invest around £1 million in converting more of your office space in Victoria to be rented out commercially. Given the current market conditions, do you think that is now viable?

Gareth Davies: I will ask Daniel Lambauer to come in on this point, as our director of resources.

Daniel Lambauer: Thank you very much. Yes, we did engage quite extensively with a range of experts and property agents on this issue, and the advice we had was that those companies that are looking to downsize potentially their floorspace in the City, where it is significantly more expensive than it is in the Victoria area, would find our place quite attractive. We can offer smaller floorspaces. I think we provide a really excellent service for our tenants. Together with our service management partners, we get really good feedback.

One of the restricting factors for new tenants can sometimes be to make sure that you have got the accurate interior design as well, so that they can work in different ways, especially in new working practices, and that's what we want to invest in.

There is uncertainty around that, of course. As we say with the entire strategy, we can update you again in our autumn hearing on this, as we did last year. But our current advice is that this is definitely a viable option.

If I may say so just briefly, I think the issue is that we will refurbish the spaces in such a way that even in case they are idle for a little while, we can still make use of them, even for our own purposes. But at the moment, we think that we can rent out those spaces.

Q33 **Jack Brereton:** How quickly do you expect to see a return from that investment and has that period been lengthened due to Covid?

Daniel Lambauer: We are planning for the next financial year to do the refurbishment and then from 1 April 2022 to ensure that we have potentially the first tenants coming in. It would then be a recurring additional return of £1 million. At the moment, we are making £2.2 million income on rent, and it would be around £3.2 million—roughly in that area, depending also on business rates. That, of course, depends on the current price that we are charging per square foot in the organisation.

Q34 **Jack Brereton:** So very quickly you should see that £1 million being recouped. In terms of wider office space, obviously a number of Government Departments are looking at alternatives, moving out of London due to the cost, and many other parts of the country are much cheaper than London. Other than your existing operation that you have in London and Newcastle, have you thought about other locations and whether to move more staff out of London?

Daniel Lambauer: At the moment, we have not discussed other locations, but we are currently starting a wider project about future ways of working. Of course, we are also looking at where the Departments are moving, but our Newcastle base is quite a good northern base, I would say. We have 100 staff members there. The lease that we are renting is coming up in 2023, so we are continuously looking into where the best location for our people would be. I do not know if the C&AG wants to add anything on that.

Q35 **Jack Brereton:** A hundred is very small, isn't it, when you have 900 staff? It would be good to see more of those moving out of London. Do you have any further plans to consider that?

Gareth Davies: We are waiting to see what Government does, essentially, because that will be highly relevant to us. The reason we have a base in Newcastle is because a significant amount of our work was in that part of the country, due to the location of Government staff, so if there is, for example, a Treasury North hub in the north-east somewhere, it makes sense for us to think about how we respond to that with our Newcastle capacity. So absolutely, but we obviously need to understand how Government is planning its moves first before we make any firm commitments on that front.

Chair: Good. Mr Lambauer mentioned new ways of working, and I think we wanted to move on to that. Mr Grant.

Q36 **Peter Grant:** Thank you, Chair. Following on from the last few questions about the use of office space, particularly during the last year, a lot of your staff have been working from home most of the time, as, I would imagine, have the staff in the places you have been auditing. First of all, what impact has that had on your ability to do a thorough audit, and secondly, are you aware of any positive or negative impacts on the Departments you are auditing from the fact that they are having to respond to all of your queries and so on by remote control, rather than face to face?

Gareth Davies: I think we were all pleasantly surprised at how well the audit processes worked, both for financial audit and value for money, while everybody was working remotely for the first time. Given that we had had no preparation for this—it was essentially everybody flung into that situation—our systems have held up well. We found workarounds for most of the things where we instinctively thought, "Well, we've always done this face to face in the past. How are we going to do it when we can't meet physically?"

Then there are audit processes, such as attending stock counts where the stock is a material part of the account, that are always done face to face. Where that was not possible because of pandemic restrictions, we found workarounds, including using hand-held cameras where the auditor was directing where the camera was pointing, and other solutions to those physical restrictions. Some of that we found so effective that we are not proposing to go back to our old way of working; others are definitely better face to face, and as soon as the circumstances allow us, we will return to doing that.

Part of auditing is understanding and forming a judgment about the people who you are dealing with on the other side of the equation, and you do need to meet people to fully understand the body language and the level of confidence you can have in their judgment, and then target your audit work accordingly. We will definitely be going back to having client meetings, attending physical valuations and so on where that is necessary in the future, but a lot of the simple data exchange we can now do automatically and remotely, so there is no need to be on site to do that kind of work. I am painting a picture of us being more selective, essentially: attending face to face where that adds value to our work, but taking advantage of the efficiencies—the reduction in travel cost—that you can see in our figures where that is possible, too.

Q37 **Peter Grant:** Thank you. I notice you have not mentioned the big advantage that as an auditor, once you have sat in an office for a day or two, you become invisible and you hear and see lots of things that you were not supposed to hear and see, but I am sure that many of the people you audit would never have any secrets from the National Audit Office.

Looking at the question of data transfer, what steps have you had to take to protect the confidentiality and security of information that might now be being transferred electronically to, in some cases, a device that somebody originally bought for their own use? I know that as the NAO you have access to anything, so your staff will potentially have access to some extremely sensitive or confidential information. Can you talk us through some of the measures you have had to take in order to make sure that that information is as secure in somebody's front room as it would have been in an office within a secure building?

Gareth Davies: I will bring Daniel in, because this is another area that he oversees for us. As you say, because we are working in this way, we have had to completely rethink or reassess the level of information security control across the whole organisation. We have really well-established protocols for people only accessing what they do need. Although, as you say, the NAO has wide powers, we don't use that indiscriminately and so our staff are trained to only access the information that they absolutely need for that particular piece of work.

On the technical front, we had to overhaul the security systems around our laptops and so on. Those security procedures weren't designed for fully remote working. Daniel, do you want to explain the programme we have been through there?

Daniel Lambauer: This is in the light of a longer-term programme that we have done on changing the digital architecture and security architecture of our information flows. Three or four sessions ago, we had a discussion with the Committee about that.

Over the years, we have invested within existing budgets—I think one of you granted some increase—in our cyber-security defences. There are a couple of elements to that. One is the change in digital architecture, which allows us to make more use of our move to a specific Microsoft product, Office 365, and significantly more powerful cloud-based security defences, and to get much more information in terms of where we think there are issues in our cyber-security risk. We are very fortunate to have secured, in a competitive market, quite good experts in that field. I feel very confident that I have got a good team who keep alerting me to any issues that are coming up.

A lot of this is also about user training, as has already been mentioned. I think we had a discussion previously about how we sometimes do phishing training as well, making sure that our people are aware of links that they shouldn't click on. We have specific tools for data transfer, which are certified. We are also getting externally audited. We have ISO27001 accreditation, which is the key accreditation in the information security space, as well as Cyber Security Essentials Plus. I could talk much more about those areas. It is definitely an area we are looking very strongly at.

Q38 **Peter Grant:** The other side of that is the additional security considerations that the Departments have to take on board, if they have significant numbers of staff working remotely for extended periods. With the work that you have done over the last year, are you confident that the Government Departments are as aware as the NAO is of the precautions that need to be taken when potentially large amounts of sensitive data are being transmitted to buildings that are not as physically secure as the Government offices in Whitehall would be?

Gareth Davies: It has definitely been a huge challenge, as you say, because people weren't expecting this. As an audit organisation, we were geared up to be working remotely before, so it wasn't a huge shift for us, but quite a few Departments relied on office-based working for sensitive data and so on. Where that wasn't possible, they have had to quickly devise ways of making secure their people working at home, for example. I think that was a big challenge for many Departments. We think that has been handled really well, broadly.

It is very clear that HMRC has had a successful investment programme in its IT capability. The reason that that Department was able to deliver the furlough scheme quickly was largely down to that far-sighted investment. Without that, it would have simply been impossible to deliver something as quickly as that with so many people not working from the office.

We haven't yet come across significant problems, but obviously it is still relatively early days. We know that some Departments are moving very quickly to get people back to buildings, where the circumstances of the pandemic make that possible, in some cases exactly for security reasons. But there has been so much learning, in the way that Daniel has described, about how to secure systems when people are working in a dispersed fashion, that I am sure that is what will be applied across the affected Departments in the coming months and years.

Q39 **Peter Grant:** At the risk of tempting fate, it is maybe just as well that we lost you due to a technical glitch earlier on in the session, and not while anyone was asking about the practical difficulties of conducting so much of this work remotely.

Just to finish off on this area of work, are you able yet to predict what the long-term impact on working practices will be? Once it is possible for everyone to be back in the office all the time, how much time do you expect people to be in the office? What bearing does that have on different specifications of the need for office space that you were discussing with Mr Brereton earlier on?

Gareth Davies: We have talked largely about the audit process, and the impact of remote working on the audit process and security of information, but also the impact on people and development. I am particularly concerned about our trainees, because I don't think this is a good environment for people to learn the job from scratch.

Our exam pass rates are holding up very well, because the formal learning part of it is very doable, working remotely, but people are missing out on the informal learning you get from being part of a cohort of trainees moving through the system, learning from more experienced people around you on the audit teams and being able to get support through informal links that are built up by getting to know people. That has been tough to replicate in this set-up. I am very keen that, as soon as it is safe to use our offices, we use them for that purpose in particular.

What is true for the trainees in that formative stage of their career is also true for the rest of us, as we are learning, developing and working collaboratively and creatively in teams across the organisation. What we strongly suspect is that we will be much clearer about the parts of our job that need us to be together to be highly effective, and those jobs where it does not matter where you are that day. You could be working at home very productively, too. I think we will see more flexibility than we had before, but we are certainly not going to be a fully remote organisation, because we won't be fully effective in that mode.

Peter Grant: I think a lot of MPs on the call who employ staff, either in our constituency offices or at Westminster, will understand what you say. It is nice for staff to able to work from home some of the time, but it is difficult if you insist on them working from home all the time. Certainly, I know it is having an impact on myself and my staff, and I would think other Members on the call would feel the same. Obviously, you are responsible for a much bigger number of staff and the issues that are faced will be that much bigger for you. That is all from me just now, Chair.

Chair: Mr Grant, thank you. I will be calling on you again in a moment, but first Meg Hillier.

Q40 **Meg Hillier:** Mr Davies, you talked about people maybe coming back now, but because of the pandemic your travel costs have gone down a lot and, as you say, your technology has changed, so there are things you can do remotely. Does that mean that when you are charging out your time you will be reducing your fees? In the light of the technology and because you don't need to travel for everything, overheads will have reduced.

Gareth Davies: As you say, we have certainly had lower travel costs due to the lockdown restrictions. All our costs get factored into our charge-out rates, so that will have an impact, offset this year by the sheer workload impact of the pandemic.

Looking into the future, it is a tricky judgment about how much of the travel costs will return. Some will because, as I have explained, to be an effective auditor you need to visit your clients some of the time and for some specific purposes, but we don't expect it to be at the same level as before.

Particular change will be that it was the NAO's practice, as it was for lots of firms, to be on site for almost the entire time of your final account audit, for example. There was already a trend away from that in the private sector, before the pandemic, but this has shown that we don't need to send people 200 miles away from London, to the south-west, say, to stay away for weeks on end in a hotel, because we can go and attend for specific purposes, do the face-to-face contact, but then work remotely for some of the time as well, and save quite a substantial amount of cost. We will have to see where the equilibrium returns to, but I do not think we will be going back to the scale of staying away, particularly, that we saw before.

Q41 **Meg Hillier:** In answer to Mr Grant and others, you have indicated what you have been able to do—and do very well—in lockdown, in your description. Apart from the face-to-face contact that you highlight as important, is there anything that has been really impossible or very difficult that you will be itching to get back to do in person as a priority, even with lockdown restrictions?

Gareth Davies: Simple site visits, actually. For a lot of our value for money work and financial audit work—our defence work, for example, on value for money—there is no substitute. When you are writing a report about the Carrier Strike programme, there is no substitute for actually being able to see how that programme is coming together; to understand the scale of the operation at Portsmouth; to visit the carrier itself; and to see the support systems that we are auditing and how those are coming together.

With some of this, we really do have to get back to being there to understand what it is we are talking about; otherwise, it becomes too abstract a process, I think. While we can get away with that for a few months or maybe even a year, over time, that would become a real problem—that we were relying on, essentially, second-hand evidence and not the evidence of our own eyes. I think auditors are instinctively uncomfortable about not being able to see first hand what it is they are reporting on, and that is a big gap in the current way of working.

Chair: And so you should be, Mr Davies; I am glad to hear you say that. We want to talk about your value for money external auditors, Crowe, who you commissioned to look at different aspects of the NAO's operations. I am going to invite Mr Grant to return to the podium to ask some questions about that.

Q42 **Peter Grant:** Thank you, Chair. I suppose this is where we get the answer to the question, "Who audits the auditors?" Mr Davies, this year, your external auditors did a value for money study on the finance function within the NAO. Can you tell us, first of all, who decided that that was what they were going to look at, and secondly, what the rationale was for choosing the finance function rather than some other part of the organisation?

Gareth Davies: Again, I will bring Daniel in on this, as this is his area of the business. In answer to your question about who decided, it is a discussion with our audit and risk committee, so as well as signing off the internal audit programme as you would expect, the audit and risk committee also approves the plans of the external auditor for reviewing areas of our value for money on behalf of the board. Daniel, do you want to explain how that process arrived at the finance function?

Daniel Lambauer: As part of our overall budget, we wanted to still get external assurance that we are as efficient as we can be in some of the standard functions that we have, particularly back office. I think the audit and risk committee discussed speaking to the external auditor to see if they could do a relatively regular programme of work to look at various functions in the organisation.

Of course the finance function, I think it was the auditors themselves, if I remember correctly, were themselves suggesting that this might be a good starting point, because they have specific expertise here in terms of comparators to other finance functions, but we are hoping to return—if the audit committee agrees to it, and if you as one of our key accountability parties find those types of reports useful—to more functions. It is incredibly useful to get an external VFM audit on some of our comparable functions from external auditors, and I found that report also very useful for us internally.

Q43 **Peter Grant:** Thank you. Before we go back to talk about the VFM audit, I just want to put it on the record that although there was discussion with your own audit and risk committee, am I right in thinking that your external auditors, if necessary, have the right to go where they want and to ask what they want? Although it is good practice to talk to you, if they feel there is something that they need to look at, they have the right to look at it and nobody at the NAO will stand in their way?

Gareth Davies: Absolutely. Given our role, you wouldn't expect anything else, would you, from us as a client of those auditors?

Q44 **Peter Grant:** Good. Coming back to the findings of the report, which certainly I felt was a very positive report—you may want to pass on that message to those who work in your finance function—there were a couple of relatively modest improvements that were suggested: one on increased automation of some routine tasks and some suggested improvements to your procurement processes.

Can you tell us what steps you have taken since receiving that report to fulfil the recommendations? Did any of the findings come as unpleasant surprises, or did you feel that any of the recommendations were either unnecessary or unrealistic?

Gareth Davies: I certainly recognise the report as a whole, including the improvement areas that you have mentioned. Daniel, do you want to explain what we are doing in response?

Daniel Lambauer: Sure. There are two areas, from my point of view, which I think are definitely areas for improvement. One is our use of single tender actions and one is around some process improvements and more automation efficiency. I will talk about them in turn.

On the single tender actions, just to give you some context about our total outsourcing budgets, we outsource in volume around £20 million a year. We have around 300 to 400 different suppliers. The external auditors found what they classified as single tender actions as being around £2.1 million worth on around 60 contracts, with an average cost of roughly around £50,000.

However, that includes some suppliers that I would genuinely call monopoly suppliers. For example, it includes the Financial Reporting Council, which does the quality assurance of our financial audit work. Of course we don't want to and can't choose who we would have as our regulator for our financial audit work. It also includes contracts that we have extended, particularly during the pandemic, perhaps for one more year, so that gives us a bit more time to really set out requirements and make sure that the longer-term contract is on a good footing.

If you exclude those elements, you are left with around 40 contracts worth around £1 million, or 2% of our total contracting spend. That is still not where I would like it to be. So first of all, we have strengthened, in terms of capacity, our procurement team, and I am very pleased that we have got who we have in-house on that. And we have introduced a contract management group, where we do training and learning. We have a much better pipeline process. I personally oversee the pipeline of all the strategic contracts and the contracts below that, as well, to really ensure that we minimise our single tender action going forward and spend enough time to go for proper procurement processes or frameworks, as appropriate.

The second point is around automation efficiencies. We have already made some changes here, particularly in our financial accounting/procurement system, where we have made some fields easier and made sure that it is single entry rather than double entry; that was something that the external audit found, or our users found. We have set up a project team within the finance and procurement team overall, to look at continuous automation and efficiencies in the kind of system part of the procurement process. That will be ongoing and we are also considering to what extent we may need to go for some other technological solutions potentially, to automate part of the process.

So that is some of the areas. We definitely accepted all the recommendations, as you can see in the report, and I know that the auditors will come back to you in the autumn to update you on where we are in the implementation of the recommendations.

Q45 **Peter Grant:** One final question. The NAO is not part of Government, so technically you are not bound by the exact rules that apply within the civil service, but do you either seek to comply with the civil service regulations on procurement or have an equivalent set of requirements within the NAO that anyone involved in procurement is required to follow?

Gareth Davies: It is certainly modelled on the same principles, adapted for our particular needs but very recognisable compared to how a Government Department would operate on procurement.

Q46 **Chair:** Mr Lambauer, could I just return for a moment to the question of single tender action before we finish, because the total quantum of single tender actions that you are buying at the moment is, you said, not where you want it? It is also true that the NAO-commissioned study from Crowe's says that there are occasions when competition would not result in value for money, and that the use of a same single tender action is allowable, though it should be on an exceptional basis.

Could you specify where you think the right level—the Goldilocks amount—of this type of activity would be? I am particularly interested in the procurement of complex intellectual services, where it will often depend on one particular individual. What would you see as the Goldilocks amount of STAs to take place?

Daniel Lambauer: It is difficult to put a precise figure to it. Can I give you an example? When there is no Government framework we can potentially also use, we are seeing whether we can do our own bespoke frameworks. That includes, for example, getting expert advice, as you say, from a range of external bodies, even in VFM or in financial audit.

In fact, we just had a procurement exercise to renew our specialist support for financial audit. The same could actually apply to some HR processes for top recruitment, for example, where we are looking where we can bundle individual, smaller contracts together in a frame of contracts with a frame of suppliers. I am sorry but it is hard to put a precise number to it, but those are the areas we are focusing on.

Q47 **Chair:** It is more about a philosophical approach. It will be difficult to pin it down when the need will vary from time to time, I suppose.

Daniel Lambauer: That is correct.

Chair: Mr Lambauer, Mr Davies and Dame Fiona, that concludes our questioning. Thank you all for coming along. Members of the Commission will now switch back to Microsoft Teams to consider the National Audit Office estimate and related matters.