

The Public Accounts Commission

Oral evidence: National Audit Office Main Estimate 2020-21.

Thursday 23 April 2020

Ordered by the House of Commons to be published on 23 April 2020.

Watch the meeting

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

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Witnesses

[I](#): Gareth Davies, Comptroller and Auditor General, National Audit Office; Lord Bichard, Chairman, National Audit Office; and Daniel Lambauer, Executive Leader, Strategy and Operations, National Audit Office.

Examination of witnesses

Witnesses: Gareth Davies, Lord Bichard and Daniel Lambauer.

Q1 Chair: Welcome, everyone, to this meeting of the Public Accounts Commission, which is a statutory commission with the responsibility on behalf of Parliament of providing the budget for the National Audit Office so that it can do its important job of auditing all public expenditure across Government. We have to lay the estimates for the National Audit Office before Parliament. Before we do so, we question officials from the NAO about those estimates. That is the purpose of this afternoon's hearing.

We are joined by Mr Gareth Davies, the Comptroller and Auditor General, by Lord Bichard, who chairs the National Audit Office, and by Mr Daniel Lambauer, who is the NAO's executive leader for strategy and operations.

Gentlemen, you are all very welcome. If a question is put to all panel members, I will indicate a witness to answer, but, if other witnesses would like to respond to the question, please raise your hand and I will call you by name. This will allow the sound operator to select you. The sound operator will unmute your microphone when you are called to speak. If we encounter any technical problems, I will ask that we temporarily suspend the meeting while those problems are resolved. Are there any questions? Then let us begin.

Could members of the Commission turn to the brief, the memorandum that the National Audit Office has provided to go with its estimate? I direct this in the first instance towards the Comptroller and Auditor General. When we last met, the Government had only just introduced the lockdown. Four weeks later, things have moved on a considerable degree. Can you say how that is affecting the work that you do now? With the end of the financial year in sight, you are, in auditing terms, at the height of your busiest time of the year. How are things such as absences and redeployments affecting your ability to do your job?

Gareth Davies: As I said when we met a month ago, we had just at that point moved into home-working mode and, as you say, everything was very new at that point. We have now been working at home for more than four weeks and I am pleased to say that sickness absence has come down sharply, particularly sickness absence directly related to the virus. At its peak, we had 27 people reporting ill with symptoms and unable to work. Nobody has tested positive at the NAO and nobody has had to be admitted to hospital overnight or longer. We are thankful for that, obviously. That number is now down to just five, and two other people are self-isolating. Out of a staff of 850 or so, that is a pleasing reduction, and we feel very fortunate that nobody has been seriously ill with the virus to the extent that they have had to be hospitalised.

Q2 Chair: Does the lockdown affect your costs in any way, either up or down?



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Gareth Davies: Not yet. We had some very minor costs in equipping people for productive home working. Most people were already able to do that, but, for people who, for example, have adaptations for disabilities in the office, we needed to replicate those at home for full-time home working, so there are some small costs.

We have been assessing the financial risks to the organisation for the medium to longer term. Some of the most significant ones for us are, for example, that we let out a part of our London office, as you know, and we are keeping a very close eye on the ability of our tenants to continue to pay their rent. I am pleased to say that, so far, they have all indicated that they can, although one tenant has asked for a bit more time to pay, which we are negotiating with them.

The significant cost pressure, which I am sure we will return to later, is that we are expecting a reduction in staff turnover, although it is a bit too early to give you useful numbers on that at this point. We would normally see low turnover at this stage because people who were going to leave would have left before the audit peak in normal years, but we expect the turnover rate to be lower than normal for the rest of this year.

Lord Bichard: We always say that the staff are our most important resource, and of course they are. At this moment, we depend particularly on our staff being able to work and feeling that they are getting the right support. It is interesting that the Comptroller has been doing a pulse survey every week to check how people are feeling, and the results of that are very encouraging: 80% of people feel that they are getting the right support, the right level of work and that they can perform efficiently. I think that that, plus the increase in the communications with our staff, is bearing fruit.

Q3 **Chair:** Do you think, now that it has been tried and tested, that this will result in more home working in future?

Lord Bichard: Is that to me, Chair?

Chair: No, it was to the CAG about your staff.

Lord Bichard: I will pass over to the Comptroller, although actually he and I were talking about that yesterday. I certainly felt a couple of weeks ago that it would lead to massive changes in the way people worked in the future. I am sure it will, but I think a lot of people in the NAO and beyond feel that some social interaction is quite a good thing as well, so I think there will be a mix. We will surely see more home working, but being face to face is sometimes necessary. It is necessary for mental health as well.

Q4 **Chair:** Uniquely for an organisation, many of your staff spend a lot of time on client sites doing the auditing, and of course technology has meant that that happens less. As a result, in recent months, have you hitherto, because of technological change, been spending more time working in the office than might have been the case in years past?



Gareth Davies: There certainly was a trend to more remote auditing, even before this crisis. Actually seeing the whites of the eyes of your audit client is still a really important part of the process and I think that will always continue to be the case. There are some things at the moment where the auditor, under auditing standards, has to be physically present, such as verifying stock counts and physical verification of assets and so on. We have not yet devised a workable remote solution for those, but there is some very creative problem solving going on this year as we work out exactly what is the irreducible core of audit work for which you physically have to be present.

Chair: Sir Edward Leigh wants to ask about the impact on the Government accounts reporting cycle.

Q5 **Sir Edward Leigh:** Obviously, there has been a massive increase in Government spending in the last four weeks, with all the business support, furlough schemes and all the rest of it. As this has happened right at the end of the financial year, what impact will it have on Government accounts for 2019-20?

Gareth Davies: It will have a very significant impact in many cases. As you say, this happened just before the end of the financial year, and there were significant spending commitments, and actual flow of cash in some cases, before the year end, so clearly all that needs to be captured accurately. Of course you have seen the huge swings in market valuations generally, and that feeds into many Government accounts because of valuation of fixed assets—buildings and, in some cases, the investments of public bodies as well.

Like the rest of the audit industry, we are working very hard to understand the technical guidance coming out from the standards setters and others on how to approach these very volatile valuations in the last few days and weeks of the financial year. As you know, with any set of accounts you also have to look ahead to events that happened after the balance sheet date but that may have an impact after the event that readers of the accounts need to understand—post-balance sheet events and so on. Some of those are adjusting in the sense that they affect the figures in the accounts. Others just need to be disclosed as a note. There is a significant amount of technical work under way across the office and across the profession to get those important accounting points right.

There is also the practical impact on Departments and organisations preparing their accounts. They have staff off sick and operating with reduced productivity from home, like everybody else, so the Treasury has relaxed the administrative deadline for preparing audited accounts from the end of June to the end of September, and we are working very closely with every organisation and Department to understand the timetable they are now working to. Some still intend to complete their audited accounts before the summer recess. Others have already told us that they are now working to the new September deadline, but I expect that some may find even September difficult in practice. We will maintain



close liaison with every audited body and keep the Public Accounts Committee up to date on progress.

Q6 Sir Edward Leigh: We are in an extraordinary situation, with the biggest increase in public spending since the second world war. Do you think there is value in having some very rapid inquiries to see what is going on so that we can learn some lessons? Obviously, when you increase public spending very rapidly like this, there are enormous opportunities for waste and incompetence and there may be problems with ministerial directions. There could be a lot of work for you. Are you going to try to be quick off the mark to keep track of what is going on in real time? There is not much point in finding out that things have gone terribly wrong in five years' time in a Public Accounts Committee, is there?

Gareth Davies: That's right. First, we are liaising with Departments on exactly the programmes that they have had to launch very quickly. There have been several ministerial directions already across a range of Departments covering the big programmes that you will have been aware of, such as the business loans from the Business Department, the money for local government coming out of MHCLG, and many others, so we are already engaging on those directions.

I joined yesterday's meeting of permanent secretaries to discuss the approach that we already have under way to gather together the Government spending commitments and other significant programmes in response to the virus so that we can publish a factual summary of all of that, including all the costs and estimated commitments, next month. I say factual summary, but it will be with commentary on how they are being managed. Our first published product on that is due for next month, and we are going to use it as our starting point for reporting back on specific areas of the programme in more detail.

As you say, some of it needs to be rapid and in real time; other bits will necessarily take longer. For example, something that I think is definitely NAO territory is the very high-profile issue at the moment of procurement and supply across a whole range of vital elements of equipment, vaccines, tests and so on. The lessons to be learned for future—hopefully, not as serious—pandemics will take a bit longer to extract, but it is important that we do that work systematically and help Government draw the right lessons on what a different approach to building resilience for this kind of extraordinary event would look like and what value for money would look like in that situation.

Q7 Alan Mak: One of the big issues that has emerged as a consequence of the coronavirus pandemic is procurement, as the Chair said, whether that be PPE, ventilators or elements of testing kits. How do you see what has been learned from the pandemic affecting the way that big public services think about procurement and the distribution of what they procure in the future?



Gareth Davies: As I just said, there are going to be very significant lessons from this. They will not necessarily be easy to apply, of course, because we are operating with the benefit of some hindsight, knowing the scale of the challenge and the areas of equipment and material that turn out to be essential to the safe operation of our health services and other key services. But it is really important that we look at the question of supply chain resilience because there will be other areas where this is covered.

It might be interesting for the Committee to note that a report that we published in September/October last year on the medicines supply chain in the event of a no-deal Brexit was a piece of work we did in real time at that point, and the Public Accounts Committee held a session at that point. One of the key findings of that exercise was that the health service had been prepared well for its medicines supply chain in the event of a no-deal Brexit, but pretty much nobody could be sure about how well prepared the social care sector was—the supply of medicines to care homes.

There are obviously echoes of that pattern in what we are seeing now. It demonstrates that audit work of that kind can point to significant areas of weakness in our preparations, and of course a challenging question is how much you spend ahead of knowing that you need to face an emergency: how much do you spend on things that will be in store for some time and how do you build local production capacity and so on? Those will be significant economic and policy questions, and our job is to extract the right lessons from what we are learning now.

Q8 **Chair:** I am going to bring in Lord Bichard, but, before I do, I would like to flag up the Chair of the Public Accounts Committee, Meg Hillier, who was nodding furiously earlier, in that discussion on medicine supply chains, to see whether she wants to come in immediately after Lord Bichard on that point.

Lord Bichard: I have a postscript, Chair, on procurement, because we had identified major national infrastructure projects as a priority for the coming Parliament, and of course procurement is right at the core of that. There are lessons to be learned from what is happening around Covid at the moment that can be applied in all sorts of other settings. Procurement really matters.

Chair: Thank you. Meg Hillier has, in the way honoured by Romans and their emperors for many years, given a thumbs down to my earlier question, so I move on to Jack Brereton.

Q9 **Jack Brereton:** Thank you, Chair. In your estimate, Mr Davies, one of the key things has been an increase in spending for staffing—around £3 million additionally towards staffing, including 27 additional posts. Could you give a bit more detail and background on what the specialisms for those posts are going to be?



Gareth Davies: It is across the range of our main service lines. A number of those staff are financial audit staff, and that was in preparation as we drew up the estimate for changes in accounting and auditing standards that would require additional work. It is also just a sheer increase in workload because we are being asked to audit new organisations.

You will be familiar with the new bodies created to oversee the restoration and renewal of Parliament as public bodies; we will be their auditors. There are new subsidiaries of the BBC, so because we audit all the BBC group, we are extending there. We have just taken on the audit of S4C, the Welsh broadcaster, too. Those are some examples of sheer growth in workload where we need to make sure that we have adequate resources to do the job you would expect us to do.

On the value-for-money side, we have seen a reduction in our value-for-money capacity and staff numbers over the last few years. That has been made possible by becoming more efficient in our study process, taking less time for each one on average and still maintaining their quality and impact. We will continue to run the process in that way, but, for example, because of identifying in our strategy the need for us to have greater capacity for auditing the ambitious infrastructure plans the Government have set out—the point that Lord Bichard just mentioned—we need to make sure that we have sufficient skilled people on the value-for-money side to do that work.

The final group of additional staff is only a small group of three where we are looking to beef up our ability to extract the learning from our work and publish useful lessons learned reports on a much more regular basis than we have been doing recently. Where we have done them, they have been very effective, but it has been quite patchy. We wanted to make sure that that was a mainstream part of our activity so that we did not have to repeat ourselves so often in reports on individual Departments.

Q10 **Jack Brereton:** When are you expecting to have the new staff recruited?

Gareth Davies: That has definitely been affected by our current plans. To take audit staff—the first group I mentioned—in anticipation of lower turnover, we have put on hold recruitment of audit staff for the kind of volume increases that we were predicting. We are still going ahead with our autumn intake of graduate trainees. That is something we are keeping under careful review.

We have not quite reached the number of accepted offers that we were aiming for, and we are holding back before we offer any further posts there to see how things develop. I am keen that we stick to our original target for graduate recruitment because I have seen in other audit organisations that I have been in that you get significant problems if, in response to a short-term pressure, you cut back on recruitment at the start of people's careers. In three years' time, we will be short of the qualified accountants we need to do our audit work, and the rest of the



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market might have behaved in a similar way to us so we will not be able to recruit them from there either.

I do not want to encounter the kind of problems that the industry saw a few years ago after the financial crisis. Three or four years after the financial crisis, audit firms were in big trouble because they had cut back too far on their trainee recruitment. I do not want us to be in that position.

Q11 Jack Brereton: You mentioned graduate recruitment. Are all the skills going to be at that sort of level, or are you going to use specialist recruitment agencies as well at a higher level potentially if there are different—

Gareth Davies: We very rarely use specialist recruitment agencies, because of the cost. We have good access to specialised markets ourselves. The exceptions will be for highly specialised posts or some of the most senior ones.

To give one example, just before the lockdown, we were out to advert for a knowledge manager to head up the lessons learned programme that I described, and we let that run to see what would happen even with the lockdown. We got a really strong response—maybe not surprisingly, because there are people worried about their current jobs and quite interested in the kind of thing we were advertising for—so we are proposing to go ahead and interview from a strong shortlist for that job. If that goes through to appointment while we are still in this mode, it will be the first time we have appointed someone to an important role like that without meeting them physically, and we will have to induct them into the organisation virtually, too.

We have gained confidence over the last month that all of those business processes are possible remotely; you just have to think about them differently and put a bit of effort into managing them well. In that case, we will go ahead and recruit if we get the right candidate.

Q12 Jack Brereton: Do you expect to fill all those roles or do you anticipate some challenges, particularly given current circumstances?

Gareth Davies: As I said, we are holding back on the last few because we want to see what is happening to turnover. Our budget is very sensitive to assumptions we make on staff turnover levels, and obviously we do not want to find ourselves with a significantly higher number of staff than we think we need to carry out the work, so we will give ourselves a bit of flexibility there. At the moment, we think we can find the skills we need in the organisation and in the recruitment we already had under way.

Q13 Jack Brereton: Do you anticipate that that level of recruitment will be sufficient given the issues and challenges we are facing with coronavirus?



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Gareth Davies: We are working really hard on that. We understand our overall workload. For example, to accommodate the significant programme that we know we are going to be carrying out on the Covid-19 response, we have stopped work and cancelled work on 13 existing value-for-money studies that had just started. There is nothing wrong with the topics we were looking at—they are all relevant—but they are not as important as the Covid-19 response, and Departments would have found them a distraction from their own work on the Covid-19 response.

Cancelling those 13 studies has given us the value-for-money staff capacity to be able to carry out the programme we need on Covid-19. Both on the financial audit and the value-for-money side, we think this estimate gives us the budget to allow us to deliver our work despite the challenges.

What we are pretty clear about is that we will be spending it slightly differently from the plans that were set out in the document you have, and for that reason we would be very happy to return to the Commission in the autumn with an update on how the year is panning out against the original estimate. I suspect there will be reallocations within the overall figure, rather than us asking for more or telling you we had too much, but we would be keen to share that assessment with you in the autumn.

Q14 **Chair:** That would be very welcome. On the point of those 13 value-for-money studies, could you say whether they will be going on to a sort of back burner where you will revisit them in a year or two?

Gareth Davies: We will go back to all of them and check whether it is sensible to complete the work. There are some where we had got a bit further, and they are on topics that are never going to be unimportant—for example, maternity services in the NHS, which is a really important area of activity but right now is not the time to be going around hospitals inspecting services. That is an example where I think there will be demand for the work and it certainly will not become out of date, so I think we will go back. For others, it will be slightly more questionable as to whether we have missed the opportune time to do the work and we may be better off using the resources on other things.

Chair: Lord Bichard?

Lord Bichard: It is quite important to reassure the Committee that the board thought long and hard before it came to you looking for the resource to fund 40 additional staff in 2021-22; it comes down to 35. We thought long and hard about that and challenged the Comptroller pretty strongly. Our conclusion was that the expenditure was unavoidable. The expenditure on audit technology keeps us up to speed with other auditors and we need to do that if the Government are to be sure that their auditing function is effective.



We could not avoid the increase in portfolio, or the changes in standards and new accounting arrangements. All of that we thought was essential. What we were faced with was a choice: either we came and asked for the additional resource or we looked for further savings within the organisation. Frankly, this has been a pretty tightly managed organisation under both Comptrollers, and you know that we have increased our efficiency by 20% since 2010. We did not feel that we could take further resource out of the organisation and continue to be effective and efficient. Since then, as Sir Edward pointed out earlier, the vast amount of additional public expenditure, the unconventional arrangements that we are now seeing and the vast increase in the number of people working from home have heaped even further burdens on the organisation.

I said before that I do not think there has ever been a time when the National Audit Office was more needed. It is true even more so today. We did not come here lightly asking for the additional resource, and we are satisfied, even with the changes that Gareth and other Members have talked about, that we are going to need it.

Chair: This seems a good moment to bring in Meg Hillier, who wants to ask about the overall budget.

Q15 **Meg Hillier:** Lord Bichard, you mentioned digital, so I want to ask the Comptroller and Auditor General a bit about that. It might have been prescient of you, Mr Davies, to push for that, but it is a large chunk of your budget. You are asking for £5.4 million, which is an increase of just over 9%. Your only additional income coming in is £1.8 million, so you have a big gap there, and £2 million of that gap is for the digital audit. Can you explain to us in simple terms what the benefits of that are and what cost savings, hopefully, it will generate in future years?

Gareth Davies: We are operating an audit software platform that is no longer going to be supported by the developers. The familiar challenge with main IT systems is that you need to replace them—full stop. We knew that was coming anyway.

As it happens, the whole audit industry has been under significant regulatory pressure to improve quality, as you know, and while that has been focused on the auditing of commercial organisations, the NAO is an important part of the audit world and we are under the same regulatory pressure to ensure that we are using the latest audit techniques and using the ability of technology to increase the quality of the audit, because it allows us to test entire populations of journals and derive much more insight from our audit work.

We are taking the opportunity of this necessary replacement of the software to overhaul our methodology, to apply the latest data analytics techniques and to retrain all our staff in that new methodology and the new software. That is a two or three-year programme—around £2 million a year. Those costs cover the external supply of the system itself, which



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is clearly not something the NAO could or would like to build itself; it is an industry standard platform that we need to acquire.

We need to apply a lot of our own staff to methodology development to make sure that it is fit for purpose for public sector auditing, and then we need to deliver the project on time and to budget and train everybody in its use, which will mean literally every auditor in the organisation, including me and my team. That is a significant project. We have talked to firms of a similar size to the NAO, as well as much bigger ones, to understand what it has cost them to do that well. We think it is tight but it is realistic so that we do not have delays and we do not have wasted effort and costs. That is where the costs come from.

Q16 Meg Hillier: That is on the costs. Do you foresee savings after the three-year implementation period that will come as a result of that expenditure?

Gareth Davies: We are not promising that at the moment because we have seen too many Government projects promise those kinds of cash savings without being really clear where they are coming from. The big emphasis for us is modernisation of our approach and audit quality. That is the real driver behind this implementation, but, as we were talking about earlier, we will be building into that new approach the ability to do it remotely. I think there are cost savings there.

Our travel costs and subsistence costs for the last month have been pretty much zero as an organisation. I do not think running at zero travel is going to be desirable for us in the future, but it will be significantly lower, so there will be some savings. The fact that we do not require teams to sit for weeks on end at our audited body premises, because we can do so much more with secure data transfer and data analytics, will mean savings in time as well.

We are not putting a figure on that yet because we want to get to the stage where we have identified the solution and understand the new methodology that we will be applying in more detail, and from that we can construct an efficiency target. We say to Departments all the time that plucking a figure out of the air at the start of a project to get approval and sound impressive is usually when the trouble starts, so I am keen not to repeat that mistake, but I will obviously come back to the Commission with an update once we are at that stage in the project, which I think will be this time next year.

Q17 Meg Hillier: If we did not approve this today and you got, probably, an inflation-linked increase and the fees for the new audit work that you are undertaking, what would be the impact? What would you not be able to do, apart from the digital, which you have described in detail?

Gareth Davies: That is a big chunk of it, so I would be very concerned about our ability to make sure that our audit quality was in the right place over the next few years. Without sacrificing part of our



value-for-money programme, we would not be able to produce the lessons learned reports that we set out. We are aiming for at least six of those this year, which is an important addition to the NAO's armoury of output. The only way we could do that would be by cutting back significantly on our reports for the PAC.

We would struggle to bring in some of the specialist skills we need to ensure that we are giving you the insight that we need to on things such as the Government's progress on net-zero carbon where we need some specialist skills that we do not yet have. That is a huge area of public spending over the next few years that needs expert attention. I think those are the main areas.

Chair: Lord Bichard wants to add something.

Lord Bichard: I want to underline the point that this investment is in the main about audit quality. Firms in the private sector are investing much more than we are in audit technology to drive up audit quality. The regulators are therefore expecting higher audit quality, and that expectation they will place upon us. If we do not invest at this moment, I fear that next year you will be getting reports in your new role from some external organisation about our quality, saying the quality is not good enough, it does not compare well with the private sector and you need to do something about it.

It is not really about saving money. We will continue to drive down our expenditure; we have taken one off our management leadership team, for example. It is primarily about audit quality.

Q18 **Mr Brown:** I want to follow on from Meg Hillier. These are extraordinary times and we all understand the pressures that the public service is under. I welcome the offer to come back to the Committee, unusually, in the autumn to see how things have turned out.

I want to ask about the extra £1 million that you are bidding for to spend on value-for-money audit, although circumstances may have just swept over the question, and the bid that you have in for an extra £400,000 on investigation and insight. Were times more normal, what would we get for the extra expenditure, or is it just a case of having cut the budget heads in earlier rounds and trying to recover the position somewhat? If we were to agree it—as I say, if it were normal times, and they most certainly are not—we would be wondering what we were going to get for the money.

Gareth Davies: On the first of those figures, it is strengthening our value-for-money teams in the way I was describing earlier, because we have cut the numbers in those teams significantly over the last four or five years. A lot of that was reinvested in the financial audit teams for good reason, but the pressure is definitely showing. One of my observations in my first year is that we have pushed that to its limit if we are still going to be able to deliver the full programme that the PAC



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expects from us, for example. There is an issue about restoring some resilience in our VFM capacity.

The other part of that cost is the specialist skills that I mentioned, where we have gaps in our expertise at the moment. When we were looking at how Government are planning to spend on their priorities in the next few years—clearly all of this was pre-crisis—we identified several points where we need to strengthen our expertise on the value-for-money side. That is the £1 million.

The £400,000 is the knowledge and lessons learned work, drawing insights from our work and making them more readily available. One of those processes is the one I mentioned that we are still going ahead on—external recruitment. What you get for that is a new series of reports, which I think will be valuable for the civil service, public servants generally and Parliament, so that you do not have to read six of our reports on procurement to understand what we have learned about effective procurement. We are looking at a series of those reports for the year.

Lord Bichard: We are also looking, Chair, to follow up on our reports even more effectively. We cannot allow Departments just to respond to the initial report and then forget about it. We need them to get on and implement the recommendations that we are making and, along with the Public Accounts Committee, we need to do that even more effectively.

In answer to Nick's first question, there is no chance of the board allowing the office to revert to the way it did things years ago, and it does not want to. We have reduced the average cost of a value-for-money study from £300,000 to £175,000, which has enabled us, while retaining the quality, to do a lot more work. We are not going to take a foot off the back pedal, but we need to invest again in some of the new skills around Government national infrastructure programmes, trade relations with the rest of the world and climate change. Things have changed so dramatically that we need to invest in that to make sure that we are still credible. If we lose our credibility, our reports will not be taken seriously and that would be disaster not just for the office but for Parliament.

Chair: Peter Grant wants to come in. Mr Grant, although I know you made in private in our deliberative session a relevant declaration from the Register of Members' Financial Interests, you may wish to take this opportunity to make it again in public.

Q19 **Peter Grant:** Thank you, Chair. Given that this is my first public meeting of the Commission, I place on the record the fact that I am a qualified member of the Chartered Institute of Public Finance and Accountancy. That qualification has clearly become particularly relevant given my appointment to the Commission and to the Public Accounts Committee. The register of interests is in the process of being updated, but my understanding is that the public register has not yet been updated. I



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record that fact and am pleased to be able to give that clarification to Members and to the public.

Moving on to the matter at hand, Mr Davies, I think there is a bid in the budget proposal for an additional £800,000 for the audit of areas where accounting standards have changed—in particular, for example, the standard for the method of accounting for leases. Given that that particular standard is now going to be introduced in Government a year later than intended, do you still need all of the £800,000 to carry out that work?

Gareth Davies: That is for staff anticipating the need for extra work on that particular standard, and, as you say, it has been deferred, so, everything else being equal, we would not need that extra capacity. The reason that has been put back for a year is to allow the complicated business of accounting for the current crisis to be addressed, and we know already that that is pushing up our workload on this year's audits, in the way we discussed earlier in the hearing.

I am asking the Commission to approve the estimate as it is drafted, on the basis that we will need that resource but we will need it for different things this year, and then next year we will need it, obviously, for the implementation of the standard as originally anticipated this time round. I listed some of the areas of the accounts that are going to be much more complex this year in the light of the spending before the year end and the commitments post-balance sheet date, so we fully expect to need that level of resource in any case.

Lord Bichard: It is only the public sector introduction that has been postponed for 12 months; it is not true that companies have had this put back, and 25% of our work affects companies, so we still have quite a significant call on that fund to meet that need.

Q20 **Peter Grant:** For clarification, Gareth, can we expect to have something back from you to the Commission during the year that effectively says, "We did not need that £800,000 for what we originally asked for, but we did need it for something else and here is what we used it for"?

Gareth Davies: Yes. It is one of the reasons why I suggested to the Committee that we come back in the autumn with an update on the estimate to explain what had been required in the light of the pandemic and the impact that had on the different lines in our estimates, so I am very happy to commit to do that.

Peter Grant: Thank you.

Q21 **Chair:** I would like to ask about the new audits that you are expecting to take on in the financial year 2020-21 and what they involve. For example, the departure from the European Union will mean that agricultural funds are administered differently, and there are new audits elsewhere. Can you say something about that?



Gareth Davies: Taking your first example, the work on the agricultural funds has been a significant piece of work for us. Actually, for a lot of that we rely on Audit Scotland and the Wales Audit Office, because a lot of that activity is in those countries.

At the moment, it is a significant annual exercise for us. We know that it will not continue following our exit from the EU. What we are not sure of yet are the alternative assurance arrangements that the relevant Department will want to put in place when it has full responsibility for overseeing the new subsidy regimes for farming. We are in discussion with the Department as it clarifies its plans, but it has not yet decided what, if any, work will be required from us or the other audit agencies with the new system. Pending that, in 2021, we are still finishing off the final year of that work. It is the kind of thing I hope to be able to update you on in the autumn, assuming the Department has been able to clarify its intentions by then.

Q22 Chair: Does the audit of the Financial Reporting Council pose any particular issues for you, given what it does? Is there a potential conflict of interest?

Gareth Davies: We had very careful discussions with the FRC when our appointment was proposed. Any auditor of the FRC would have to deal with the issue; the audit work is regulated by the FRC. The reason we have been appointed for the first time to that audit is that the intention of the Government is that the FRC becomes a ministerial public body, which it was not in its previous shape, and therefore it should come under the NAO's audit remit. There is also a logical reason why I should be the auditor of the FRC, given the kind of inherent conflict, as the alternatives are firms directly regulated by the FRC.

As you know, the proposal being discussed in Government at the moment is to ensure that the NAO's work is properly inspected but that we are not accountable to a ministerial body, because that would be a serious independence risk. The intention that we become accountable to Parliament, and to the Commission in particular, for audit quality, so that the Commission receives reports from the regulator, is a good way of managing what would otherwise be a threat to our independence from a ministerial body.

We have had to make internal arrangements. The NAO director who leads the audit of the FRC is not inspected by them. It has no company audits and so will not be inspected on company audits by the FRC. We have kept that separation. The team that we have carrying out the audit is completely separate from the team that deals with the FRC as our inspector. We are confident about those internal changes, and the FRC is also comfortable, otherwise it would not have been able to approve our appointment. At the moment, those arrangements seem to be working well.

Q23 Chair: Thank you for that answer. It is particularly important for this



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Commission, as you can imagine, to retain the National Audit Office's independence from Ministers.

You mentioned earlier the restoration and renewal of the parliamentary building, which is a very big project. You have budgeted £400,000 for the audit of that this year. Once it gets fully going, do you expect that number, and the number of staff involved, to go up?

Gareth Davies: We will have to see. At the moment, we think it is a realistic estimate for the level of audit activity that we think is going to be needed.

On the value-for-money side, we are publishing our first report tomorrow. We have taken a look at the initial preparations for the new sponsor body and drawn on our experience of other major projects to share some of our assessment of the risks to a successful start to that whole exercise. It is important that we get in at this very early stage and share our learning from other examples so that the sponsor body, and Parliament itself, can put effective arrangements in place to avoid some of the problems we have seen in other major projects.

Chair: We mentioned supplementary estimates briefly a little earlier. Sir Edward, is there anything you want to add?

Q24 **Sir Edward Leigh:** Yes, but before I get to that point, a question occurred to me earlier. In view of what we have been discussing and this unprecedented rise in public expenditure, do you think that the Government's assessment of their liabilities on the balance sheet are reasonable?

Gareth Davies: I think those assessments are still being made. A key part of this year's audit process is testing the basis for estimates on liabilities, particularly the ones where they are contingent. In other words, there is a potential call on public funds from a scheme that is being launched, but the precise amount will not be known until take-up is better established and the length of the period of disruption is known.

There are going to be some complex valuation questions, and that will feed its way into all sorts of organisations. For example, a very sensitive number in the Student Loans Company is directly affected by assessments of economic circumstances, because their model is based on macroeconomic factors that hugely influence the scale of that liability.

It is going to be a very big job for auditors. We are already making sure that we have in place liaison arrangements with the OBR, who are obviously looking at financial risk around this, and the ONS, who are reporting the numbers. We need to make sure that we all understand the basis on which we are each working so that we can give a credible account to Parliament of the scale of the liabilities that are being built.

Q25 **Sir Edward Leigh:** In view of the vast amount of new work that you are going to have to do, is it possible that you may have to come back to us



later in the year with a request for a supplementary estimate? In other words, might you need more money than you expect?

Gareth Davies: I have already committed to come back to you with an update on what we have proven to need and how we have been spending it. We will then give you a very secure projection for the whole financial year. At this stage, I hope not to have to come and ask for more at that stage. It is coincidental but clearly helpful that there is investment in this year's estimate, but we need to press on with audit quality, so we will have to spend the funds on the audit quality improvement that we mentioned on that topic. It will not all be available for extra work on the Covid-19 response. We will carefully track it.

My intention at the moment, and my guidance to the organisation, is that if this estimate is approved by the Commission, it is our cash envelope for the year. In that autumn update, I will definitely come back and let you know if we are not able to discharge our responsibilities adequately with that level. At the moment, I am aiming that we do.

Lord Bichard: We have said on a number of occasions in this hearing that it is unlikely that we are going to spend the money on the things that we thought we were going to be spending it on when we submitted the estimate and produced the strategic review.

Gareth has made the point that it is important for us not to lapse into thinking that we do not have to manage the resource any more. We have to manage the resource. We need to be as efficient as we can be. The board will be looking again, before we come back in early autumn, very carefully at what we need to spend the money on and how well we are spending it. I do not want people to run away and think that we are going to assume that there is a supplementary estimate and we are just going to bring it back. That cannot be right. As we always say, we have to act as we expect others to act, and that means managing our budget closely.

Chair: Governments have always historically been very bad at learning from their mistakes. The memorandum from the CAG talked about lessons learned, and Meg Hillier wants to ask you about that.

Q26 **Meg Hillier:** Mr Davies, we have talked about this a lot, and the Public Accounts Committee is concerned that we do not just do reports that tell the Government what has gone wrong but what lessons have been learned.

You have a number of plans in the pipeline. Do you yet have any flesh on the bones about what subjects you will be looking at for those lessons learned reports? How will you try to disseminate them through Whitehall so that you are not just presenting them with a document that gathers dust on a shelf but providing a usable, workable document that changes behaviour in Whitehall?

Gareth Davies: Our first topic, you will not be surprised to know, is around major project delivery. That is the one on which work is most



advanced. We are looking at other topics—for example, the use of data models in Government, which has become very topical at the moment with the pandemic. There will be much broader use of data models for a whole range of purposes in Government, in a mixture of technical but very important policy areas, like major projects. In terms of the outputs, we intend them to be quite different in the way they look and operate from our standard value-for-money reports, which work well for that purpose but I do not think are quite suited to the knowledge dissemination point that we are looking for.

We are working very closely with the relevant Government professional networks. As you know, the Government have been working hard to professionalise a lot of their functional areas. Our links with those functional areas are strong and developing. We are working with those professional networks to understand what they would find most useful as an output. They represent our key stakeholders on this work and are the people entrusted with delivering these projects in the case of the first piece of work. We plan to be engaged in seminars, webinars and contributions to training events, as well as publishing a report.

Q27 Meg Hillier: If I am being a cynic about Whitehall, it is because although we all know that the professional networks are great—finance, procurement skills and project management—sometimes there can be resistance within Departments to listening to the professional networks, because there is a way a Department works on doing it. How are you going to get it into the DNA of Whitehall and people who are not those professionals to understand that there are benefits to adopting lessons learned in the way you have described?

Gareth Davies: I recognise the problem that you describe, because it has come out in several of our pieces of work. The links between those networks and the senior management of each Department are improving. It varies from network to network, but in the best cases they are now pretty close to the central decision makers in the Departments. We want to try to encourage that, build on it and support them in doing it.

I hope that the Public Accounts Committee, for example, will want to hold hearings on the thematic reports in the way you did on the Government's use of data last year. I thought that was an effective way of flushing out some of the issues on the progress that was being made at the top of Departments on that important topic and why it was taking so long to appoint a professional lead for Government, and so on. The tried and tested route of PAC scrutiny, and bringing permanent secretaries in to talk about those areas, plus our bottom-up route through the networks, should be a useful combination.

Meg Hillier: Let's hope so. If I had £1,000 for every report where data was a problem or other skills were not used, I probably would not be sitting here now. Thank you.

Q28 Mr Brown: You say that you are going to have a look at joined-up



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decision making, Mr Davies, and how government functions when there are separate Government Departments and other agencies, such as local government, all dealing with similar issues. Where there is overlap, is money being used efficiently and would there be a better way of doing things? The obvious example is support for adult social care.

It follows on from lessons learned. Are there good practice arrangements that could be applied in this area? Would that be the starting point for an examination, or are there some issues that are just intractable, and what has happened over the last 10, 15 or 20 years is going to continue to happen over the next 10, 15 or 20 years? I accept that these are extraordinary times, and this is quite a big question to expect an immediate answer to, but it seems to me to be a very important area of work.

It also seems to me that where there are demarcation disputes between different Departments and authorities—local as well as national Government Departments—the fight is often not so much about the responsibility but about the money. Is there something you can bring to that debate, or that you see the National Audit Office bringing to the debate, that would cut through it?

Gareth Davies: A lot of our recent work has focused on exactly that—financial resilience in local government, for example. The key area there is social care and the demand-led aspects of social care. We have already established the evidence base for a pretty high level of concern about how the current system is operating. We need to keep that up to date.

The other point I want to mention is the link between the work we are doing on the Covid-19 response and your question. What we are hearing from many people in the local-central interface in Government is that where it is working well—it is working well in lots of areas, although we do not hear so much about those at the moment—what is happening right now is cutting through decades of inertia and slightly parochial thinking about whose budget it is and whose turf it is, and so on. There are some amazingly impressive examples of people breaking through those barriers, through sheer necessity, and saying to each other, “We can’t go back to how things were before this crisis,” in terms of working relationships, speed of decision making and allocation of resources to where the need is rather than whose budget heading it appears under. People are bulldozing through those long-standing excuses for ineffective use of public money across service boundaries.

There are still important questions about clarity of accountability and who is keeping score while all of this innovation is going on at breakneck speed, but somehow the system collectively needs to capture those positive experiences and not allow the previous barriers to creep back in again when we are past the crisis phase. There are many examples. I am encouraged by how many Departments have already described to us that, as well as handling the immediate pressure on them, they have already tasked people in the Department with the job of capturing the



learning. The phrase they are using is “building back better”—in other words, not just trying to get back to things as they were before the crisis but applying the learning so that it is embedded for the future too.

Q29 Chair: That is an extraordinarily important theme. It is very encouraging to hear that Departments are already thinking about it and trying to capture it. What role can the National Audit Office play in capturing and spreading that learning?

Gareth Davies: It will definitely feature in the reports we are preparing on Covid-19 response. We are determined to capture examples of the things I have just described, which are happening not just across social care but in other areas too. We are determined to capture those lessons, as much as we are the things that have gone badly, where people have felt let down by procurement systems and so on. A rich pool of experience is being generated. Part of our job is to make sure that that sees the light of day in our reports and that parliamentarians have the chance to take evidence on it.

Lord Bichard: One of the problems we have seen in Government around social care, which I agree is a massively important issue, is that the battles Nick Brown talked about have been about responsibilities, departmental power and budgets, and have not been sufficiently focused on the needs of clients and outcomes.

In answer to your question, Chair—what can the NAO do?—I think we are quite good at focusing on outcomes and client needs, and cutting through some of that departmental battleground. That is what we have been trying to do with social care, sometimes to deaf ears. We need to continue to do that, to increase the focus. I am afraid Covid-19 has added power to what we are saying on the issue; we certainly must not take our foot off the pedal again at this moment.

Q30 Clive Efford: That answer is absolutely fascinating and a real breath of fresh air. We have seen some real innovative thinking coming through local government, the third sector, which I want to ask about, and businesses working together. For instance, in my borough, a not-for-profit co-operative has been co-ordinating the distribution of food. Restaurateurs have found themselves cooking meals for people who could not afford to go through the doors of their restaurants. The way that has worked is incredible. It has opened up relationships and partnerships that should not be lost going forward.

In addition to the answer you have already given, I seek reassurance that you will be looking at the third sector. They have shown the flexibility to adapt and move in to fill niches that rapidly needed filling in order to support some of the most vulnerable people. I would like to draw your attention to that when you are looking into the piece of very important work that is going to come on the back of this crisis, once we start to come out of it.



Gareth Davies: Absolutely. You cannot look at social services, for example, without fully understanding the role that the third sector plays. As you say, that has taken some new forms in this crisis. DCMS, for example, is a Government Department that you would not say was on the frontline in the Covid-19 response, but, actually, given its responsibility for the third sector, the Department is engaged in a critical piece of work of understanding what is happening to that sector and where the opportunities are, as well as where the significant financial challenges are. When we assess that Department's role in the crisis, its role in understanding and supporting sensible development of the third sector is going to be very important.

Q31 **Chair:** Lord Bichard, do you want to add anything on that point?

Lord Bichard: It is a really important point that reinforces what I was saying earlier. If you are concerned about the outcomes, you are concerned about what the citizen is getting and not so much who the provider is.

What we can do is to start with the client and the outcomes and then work back from there. In my view, the voluntary sector, the third sector, the not-for-profit sector, or whatever you want to call it, has been desperate to play a greater role in many more areas than it has been allowed to. We can be an independent commentator, not an arbiter, on what is happening in the voluntary sector and in local government. That is certainly valued by local government and, I think, by the voluntary sector too—he says, sitting in the house of the chief executive of Citizens Advice where it is constantly brought home to me.

Chair: Glad to hear it.

Q32 **Peter Grant:** Mr Davies, you said that you propose to report to Parliament on the work that has been done across Government to prepare for Brexit. I think we have gone more than an hour without the "B" word, so we had to get it in at some point. Can you tell us what form those reports are likely to take, and when you expect to be in a position to present them to us?

Gareth Davies: The major focus in our programme is a piece of work to update what we did towards the end of last year on border preparations. We think borders are one of the key risk areas, given the scale of systems development and the repurposing of a lot of the border processes that need to be done before the end of December. That has been in our programme for some time, and we have started work on that topic.

We were planning to publish our report on that in June or July. The Departments most deeply engaged in it have asked us to delay our timetable because of their Covid-19 response effort, so we have shifted the target to October this year, because they are not available to support our work on that at the moment.



Clearly, one of the interesting questions for Parliament will be how these two processes co-exist and how people juggle their respective priorities. Significant work is needed to prepare for transition at the end of December on the new border arrangements, at a time when people are doing something that they did not expect to be doing, with huge demand on their resources. How those risks are being managed will form part of our reporting.

- Q33 Peter Grant:** You report back to Parliament, presumably through the Public Accounts Committee, in October about something the Government are preparing to do at the end of December. It does not leave a lot of time for any improvements that are necessary if you uncover potentially serious weaknesses in the Government's preparations. What happens if you report to us in October that the Government are not going to be ready at the end of December? What options do we then have?

Gareth Davies: If it becomes clear that there is that kind of issue, we will not wait until the full report could be completed in order to alert, first of all, the Departments involved. That is exactly what happened with last year's work on the border. It came in the run-up to the original October deadline for EU exit. With all of that work, we shared our findings in real time with Departments, so that, where we identified issues, they could act on them and we did not have the problem that you were describing. We will operate in the same way.

The PAC was able to engage with that process because the key Departments were in front of the PAC on a regular basis, and the Committee was able to ask for real-time updates from permanent secretaries on those kinds of questions, which made sure that there was parliamentary scrutiny to go alongside our audit process. I see it working in the same way this time.

- Q34 Peter Grant:** Another significant area where the Government are having to do something completely new is in the development of the shared prosperity fund, which they intend to use to replace some of the funds that previously went to a lot of communities across the UK from the European Union. Have you done any work on that, or do you intend to, before the scheme is intended to go live?

Gareth Davies: At the moment it is not in our programme, but I am happy to have a conversation about the risks you see in that and assess whether it is something we can accommodate. At the moment it is not a live piece of work for us.

- Q35 Peter Grant:** Comments have been made in relation to other parts of your plan. As well as being able to look at what Departments are doing and to make recommendations to Departments, we need to be able to make that a cross-Government learning process. The Covid crisis has clearly shown that sometimes we need to break down barriers between Government Departments and the whole of Government, and indeed between Governments, in order to work together.



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Have you seen anything in the work you have done so far to indicate that that level of cross-Government co-operation is happening with regard to preparation for Brexit, or are we still seeing Government Departments tending to protect their own interests rather than working together?

Gareth Davies: In the run-up to last year's deadlines, we saw much stronger cross-Government co-ordination towards the end of that period. Those management arrangements were continuing before we hit our current crisis. Our focus is the implementation by civil servants of policy, so that is what we are looking at. Towards the end of last year, those cross-Government management arrangements were clearly operating. I think the challenge will be operating two sets of incredibly intense cross-Government arrangements at the same time. That is unprecedented.

The other issue where we are already clear on the need for Government co-operation, maybe not in such urgent time but on a very important topic, are the Government's plans to get to net-zero carbon emissions. Again, that is something that requires co-ordinated action across multiple Departments. If we had not been doing our Covid-19 response, the first major thing we would have been bringing in on that topic would be an assessment of Government's overall arrangements for delivering that programme. We are still working on that, but, again, it has had to go at a slower pace because of the Covid-19 work in Departments.

Q36 **Chair:** Thank you for that. We may come to things like climate change very shortly. First, I would like to take you back to the announcement last month, in March, about a big increase in the scale of infrastructure spending. We saw the green light for HS2, for example. How are you going to respond to this big change in the scale of investment by Government?

Gareth Davies: It is one of the reasons why we needed to bolster our capacity in the way we were discussing earlier, with some specialist skills in those areas. The existing teams have become quite expert because of the repeated examinations of Crossrail, HS2 itself and lots of defence projects that count as major infrastructure projects in their own right.

The next significant one we are working on is the broadband programme. As you know, there is a major Government commitment to accelerating the gigabyte version of the broadband network. Again, that is affected by everybody having to focus on the immediate crisis, but work is continuing in our programme. We are approaching it by learning lessons from the superfast phase of the broadband project, and the ambitious gigabyte programme is taking on those lessons. That is the next practical stage of our work on infrastructure. I mentioned our lessons learned report on major projects. Most of those are infrastructure-type projects, so we will be sharing that lessons learned work this year, too.

The close links we have built up with the Infrastructure Projects Authority are a significant benefit. We are sharing our learning across those two operations and making them available in ways that can help tackle new



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projects. I gave the example earlier of the restoration and renewal report that we are publishing tomorrow, where you will see that we are not waiting for things to happen. We are helping what is now the sponsor body, as well as Parliament itself, to think through the arrangements they need in place to avoid the common problems of infrastructure projects.

Q37 Chair: Which the NAO did very successfully in relation to the 2012 Olympics as well, I seem to recall. It is good news that you are doing that now, rather than waiting.

Do you see any evidence that the Government are gearing up to manage a big ramping up in investment spending? It is all very well to announce that there is going to be a lot more going into infrastructure, but do you see evidence of a concomitant increase in their management capacity to handle bigger investment spending?

Gareth Davies: There is a real challenge. Given the scale of the individual projects, and their cumulative scale—particularly the ones working at the same time—there are value-for-money issues in their sheer scale. HS2, for example, is getting to the point where it feels as though it is dangerously close to clearing the market of supply, with obvious implications for competitiveness and resilience on those projects. Sheer scale is something the Government are going to have to think about, not just on the individual mega-projects but collectively across the programme. They must make sure that the phasing of those is realistic in the availability of specialist skills and industrial capacity.

Q38 Chair: Do you mean that you think that the phasing will unduly affect the ability of the market to supply?

Gareth Davies: Yes. There is a strong link with skills development for the country, which is one of the big selling points of a lot of those projects. HS2 on its own, for example, will create significant numbers of apprenticeships and skill future engineers. Making sure that the skills infrastructure is adequately prepared to respond at the right speed for the demands of all the projects is a very important issue for Government.

Q39 Chair: Will you be able to access all the information you need, for example within HS2 itself or within its subsidiaries and contractors, to make sure that you are able to do your audit work and assess value for money properly?

Gareth Davies: We have not had any difficulty in accessing the information we need for either our financial audits or our value-for-money reports on those organisations. Co-operation has been really good, and because of the significance of the projects we have built in regular communication points with not just the officials and managers in each case but the board members and non-executives, as important sources of assurance. Access has been very good.

Q40 Chair: Can we take it that if you encountered any access problems you would in very short order draw them to the attention of Parliament



through the Public Accounts Committee?

Gareth Davies: Absolutely.

Q41 **Meg Hillier:** Mr Davies, I want to ask about the work you are doing on climate change. Both you and Lord Bichard mentioned that you are going to be doing work to assess the robustness of the zero emissions target, possibly in even more challenging times than before. How are you going to go about that work? Is it going to be one piece of work, or are you going to be looking at it Department by Department? How will it be different from the work of other bodies, say, the Committee on Climate Change?

Gareth Davies: Obviously, we stick to our remit, which is the public spending implications of those issues. This is a very significant value-for-money question. In a sense, it is a slow-time version of the Covid-19 example. What is the value for money for spending on prevention and mitigation rather than curing problems once they have materialised in full? There is a completely different issue around a pandemic, but there will be a lot of learning about prevention and value-for-money assessments. When is it best to be spending public money to head off bigger bills in the future?

I mentioned already that the first piece of work is how the Government are organising themselves to manage their programme of work to deliver net zero. There we would just say, "Well, Government have set themselves this target, so how are they organising themselves to deliver it?" That will include the cross-Government arrangements that I mentioned in response to the earlier question.

We are also looking at specific topics. The first of those is low-emission vehicles. As you know, the Committee on Climate Change advises Government on what they will need to address if they are to meet their target. They have chunked up the target into the big areas that need tackling. Clearly one of them is road transport, and decarbonising road transport. We are looking at the Government's approach to that as a programme within the overall policy.

As you know, we have already done work and reported on work that is relevant. We have looked at smart meters, which have relevance. We published a report in January on the electricity networks and how they have been regulated, specifically on progress towards decarbonising the electricity supply. It has already influenced quite a lot of the scope of existing work, but what you will see in the coming year is a programme specifically on net zero in the way I described.

Q42 **Meg Hillier:** Will you think of having a line in every report you do on value for money or other investigations, about how that project or initiative has delivered on climate change targets?

Gareth Davies: We are looking at that. I do not think it would be relevant in every single case, but it will be increasingly rare that it is not



relevant. We are looking at that, and it would be good to explore what the Committee would find useful in that form too.

- Q43 **Meg Hillier:** That brings me to a wider issue. Quite often when Government policy is announced or Bills are published, there is an impact assessment covering various areas. They are very broad-brush Government policy aims saying that they want to achieve something very big across the piece. Do you see part of your role as trying to drill down on that and assess whether it was just an empty promise or whether it is being bitten into by Departments in every initiative they deliver?

Gareth Davies: We look at those assessments when it is in an area where it is a useful part of the evidence base to understand how it is being tackled. What we have not done for some time, as far as I am aware, is to look at how well Government operate that process across the board. It is one of the potentially interesting thematic areas where we could learn from the better Departments that do it well and try to level up the quality of those assessments across Government. That is not something in our programme at the moment, but it is an interesting possibility.

- Q44 **Meg Hillier:** There is an interesting gap in the system in this respect. It is no criticism of the National Audit Office, but a criticism of all of us as to how we assess whether a policy has ever been properly implemented. There would be an appetite for that, certainly from the Public Accounts Committee, and possibly from Parliament.

That brings me nicely to this point. You mention in the memorandum that you want to engage with all Members of the House of Commons and all Members of Parliament on the work you are doing. Obviously, some of us know in much more depth than others what you do. We had a new Parliament elected in December and we are in odd times now. How are you planning to engage with MPs to make sure that your resources can be well used to support MPs in their work, particularly when we are not working in the same building?

Gareth Davies: I wrote to all MPs after the election, allowing enough time for people to get settled into offices and so on. I did not bombard everybody straightaway. After a few weeks, I wrote to everyone explaining our role, providing contact points for people who wanted to know more, and an explanation of how we manage requests from individual MPs for information or for us to look at a particular issue that strikes them as important and where we could help.

We get substantial correspondence. As you know, we get regular correspondence from MPs outside the Select Committee process. We have a good track record in responding to MPs raising issues that need attention. We did some work on DWP, for example, and how it handles the tragic cases of suicide of claimants. That was triggered by information provided to us by an MP. There are lots of examples of that kind of work.

We do not assume that people read the first letter and will remember how to contact us. We have a plan for reminding people that we are here,



particularly those who are not on Select Committees and do not see us in that structured situation.

Our work with Select Committees is quite well embedded. The PAC is clearly our main focus, but we attend most Select Committees at some point in their annual cycle. They take quite a lot of interest in the landscape reviews that we produce on each Department. In some cases, we carry out work specifically at the request of other Select Committee Chairs as well. For example, we did a factual overview on the state of NHS dentistry for the Health Select Committee, which I think they have found very useful in the last few weeks.

We will continue to engage with that kind of balance. The main focus is on the PAC, but there are other Select Committee engagements. We will remind other MPs that we are here as an important source for them.

Chair: I want to bring Clive Efford in on the previous point. I think we left climate change too quickly.

Q45 **Clive Efford:** Thank you, Chair. It is on the issue of joined-up thinking, if I can go back to that.

Climate change is clearly something that cuts across virtually every Department. The Government have a commitment to deliver on the number of houses built. Many are being built on flood plains, and that has knock-on consequences in terms of flood defences and everything else. How would the Audit Commission go about satisfying itself what the priority is in the desire to build more homes against the environmental consequences that may come with that?

Those are the sorts of issues that climate change is going to throw up in the future. Have you given any thought to that sort of conflict of interest in the Government's policies?

Gareth Davies: Obviously, it is not for the NAO to adjudicate on priorities. It is entirely the Government's responsibility to set priorities. Where I think we add value is by assembling the evidence for progress against those priorities and how the Government are setting themselves up to deliver them. That is what we are doing.

On your example, one of the pieces of work in the climate change programme that we were describing is on flooding. The point has been made very strongly to us that we must not just focus on reducing the country's carbon footprint, important though that is. We also have to tackle mitigation. We have to tackle the fact that, even if we did a great job now of reducing carbon emissions, the climate is changing anyway, so we have to prepare ourselves for more flooding come what may.

In that case, we do not go in with a ranking of Government priorities to say, "We have decided which ones are most significant." We just assemble the evidence on how the flooding risk is being tackled, how investment is being targeted and—exactly the kind of issue you



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mentioned—when other activities of Government are inadvertently contributing to the problem, and how that is being addressed in the next phases of work. Those are the kinds of reports that it is legitimate for us to produce, and I think they help Parliament ask the right questions of the accounting officers.

Q46 Clive Efford: I apologise that I joined you late. I wanted to come in on an issue related to PPE procurement, but if you want to leave that until later that is fine.

Chair: No, go ahead now.

Clive Efford: The Government had a pandemic preparedness exercise back in 2016. I know that this predates you coming into your current position, Mr Davies, but these exercises are designed to inform Government decision making about things like procurement of PPE.

Does the Audit Commission have any role in looking back at how the Government use the information that comes out of something like that and whether they did it appropriately? PPE being stockpiled was recommended as part of that exercise. Is that something the Audit Commission would look into?

Gareth Davies: Speaking as somebody who has worked for both, we are the National Audit Office rather than the Audit Commission.

Clive Efford: Sorry.

Gareth Davies: First of all, there is the immediate work we need to do on the Covid-19 response, because there is plenty of that. It is also about extracting in a systematic way lessons learned from this whole experience. That is exactly the kind of thing we will need to include in that work.

Clearly, we are not talking about a risk that had not been identified. It was a known risk. The question is just how that risk was then treated and managed. Auditors are often accused of trading in hindsight. That is not the approach that we are taking. It is to understand what information was known at the time and what was done with it, and whether it appeared to be a reasonable approach in all the circumstances. It is not, "Now that we know what happened, does it look wise?" but, "At the time, was that a sensible approach to take?" and to extract the learning from that so that our disaster planning for the future can be better informed. The next serious risk to hit the UK may well not be another pandemic, but there will be something else. What have we learned for contingency planning and sensible use of public resources to mitigate the risk of those things in advance?

Q47 Clive Efford: One other thing that has come out of that is having a secure supply chain in relation to PPE, and also for testing and other issues that have come out of this crisis. Would that be something you would look at? For instance, if we are purchasing large amounts of



supplies of PPE from countries that are at the peak of a pandemic and are therefore diverting exports that would come to us, is it in our interests to have a supply chain here in the UK that is less likely to be diverted in that way? Is that a lesson that you think we should look into and something we should learn from?

Gareth Davies: In the end, those are policy choices, which are for Ministers rather than for auditors. What we can do is assemble the evidence in a way that gives Parliament confidence that the right lessons are being learned from this experience. That is our job in this case. It is not to tell people what the answer is, but to make it much easier to find the right answer.

Q48 Chair: Some years ago, when I was a member of the Public Accounts Committee—I stopped being a member in 2017 so it was at least three years ago when this was said—I clearly remember a witness from one of the major Departments saying to the Committee that the possibility of a global pandemic flu of some kind was No. 1 or No. 2 on the Government's entire risk register. With the Government knowing that and having stated that, are you saying that what contingencies they had then put in place, as a result of those statements at that time, would be a legitimate part of your inquiry?

Gareth Davies: Absolutely, yes, and whether it was a sensible and proportionate response to the evidence they had in front of them at the time. That is the kind of evidence that we fully expect to be assembling. We are not talking about clinical judgments; we are talking about supply chains, procurement and so on, which is core territory for our organisation.

Lord Bichard: It is important for us to see our role as making a contribution to future disaster planning. We are not in this just to prove people right or wrong. We need to learn the lessons so that in future we approach a disaster like this as effectively as we possibly can.

I want to go back to Meg Hillier's point about communications. Even in the office it might sometimes happen that people see communications as a secondary issue. They are not. The NAO is here to support Parliament and all Members of Parliament. We think we can do that even better through newsletters and the use of social media, and by making our reports more relevant to constituency problems. We think we can improve all of that. A small amount of the additional investment we are asking for today is to ensure that we do that effectively.

Q49 Sir Edward Leigh: In an answer to the Chair earlier, you mentioned that you were publishing a report on restoration and renewal. This is a very fast-moving story, and the latest news is that English Heritage is lodging an objection to the demolition of Richmond House and asking for it to be called in.

It seems to me that you have to keep a very careful eye on this fast-moving picture. If Richmond House is not demolished, some other



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alternative will have to be worked up—maybe a temporary chamber somewhere else, or us not moving out altogether. Do you see the point I am making? Are you up to speed on this and keeping an eye on what is happening? Frankly, I do not think anybody knows at the moment how or when it will proceed. It is a huge item of public spending, and we are in the spotlight because it is us, Parliament, spending the money.

Gareth Davies: Yes, I knew that there was a big focus on the Richmond House issue and the involvement of English Heritage and the local authority in that. Our report is not a commentary on the detailed bits of the programme as it is currently designed. It is much more about the principles for ensuring that it is well managed from the outset. That is what our report tomorrow focuses on. One of the reasons that is so important is exactly that kind of eventuality.

Things are going to happen, particularly with a project like that. At the moment, nobody really knows the condition of the building in the detail that we are going to find once the work is under way. There will be all sorts of new challenges and risks that were not anticipated that need to be accommodated. Our report focuses on how good projects deal with those things. It is about accepting that there is a level of uncertainty at the start but then minimising the impact of delays on costs when, inevitably, you have to respond to new information as you go through. It will reinforce how important those bits of our recommendations are as they go along.

In answer to your question about whether we are in sufficiently close touch, one of the advantages of doing the early work has been that we now have very clear channels of communication with the sponsor body, as well as with the parliamentary authorities. We are very pleased that we have that information flowing quickly to us because, as you say, things will develop fast on that project.

Chair: Thank you very much, Mr Davies. If no one has anything to add—I don't see any hands waving—that concludes our public session. May I take this opportunity to thank all our witnesses, and in particular the broadcasters, who have been extremely helpful in very trying and rather strange and difficult circumstances? Thank you, everyone.