

# Public Accounts Commission

## Oral evidence: National Audit Office Annual Reports and Accounts

Tuesday 30 November 2021

Ordered by the House of Commons to be published on 30 November 2021.

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Members present: Mr Richard Bacon (Chair); Jack Brereton; Mr Nicholas Brown; Anthony Browne; Peter Grant; Dame Meg Hillier; Sir Edward Leigh.

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### Witnesses

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

## Examination of witnesses

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

**Q1 Chair:** Welcome to this meeting of the Public Accounts Commission to consider the National Audit Office annual report and accounts. We are joined by Daniel Lambauer; the Comptroller and Auditor General, Gareth Davies; and the chair of the National Audit Office, Dame Fiona Reynolds. You are all very welcome.

We had a meeting last week on financial audit quality; unfortunately, it was cut short because of so many parliamentary votes. We have a few questions that we would like to direct to you, Comptroller and Auditor General, at the beginning of this hearing, before we move on to today's session proper.

One of the questions we were discussing last time relating to the nature of audit quality was a shift towards doing audits remotely, which was happening anyway because of changes in data technology but was accelerated by the pandemic. Do you think there is scope for some NAO audits to be completely or mostly virtual in the longer term?

**Gareth Davies:** I think what we demonstrated both last year and this year is that it is possible to do audits completely remotely.

As I think I said last week, if you had challenged us to do that in advance, I would have had some big reservations, so it just shows that if you have to do things, you can accelerate change. It did accelerate our process for downloading significant amounts of data from ledgers from audited bodies and using that remotely. That is a technique that we will be using in the future to save on meeting times and travel times and costs.

We don't need to send our teams to work away for weeks on end on site, on remote audits. We will need to go and visit—to set up audit visits to deal with queries and resolve any difficult issues—but we will save significant amounts of staying-away costs along the way.

We have even developed innovative ways of asset verification. We normally insist on attending stock takes in person. We found ways of doing that remotely, using cameras that we control and so on.

In extremis, it is possible. There are some downsides, though. We have identified some of those. I think the biggest downside of working this way is on our trainee cadre. We have recruited two groups of trainees during different types of lockdown, in autumn 2020 and in autumn 2021.

The experience of our trainees has not been as good as if they had been able to be in the office and work on site in teams. Their formal training is fine and their exam pass rates are just as high as they were before the pandemic, but they are missing out on the experience of working alongside more experienced colleagues, hearing how they deal with difficult issues, seeing what it means to be a professional auditor. We are



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doing our best around that, and since we have been able to bring them back into the office, obviously we have been doing that very enthusiastically.

**Q2 Chair:** I noticed that in your annual report you have a lot of photographs, right at the beginning, of members of staff working from home—including one who brought a dog, I was very pleased to see. But presumably you are expecting to be more or less fully back in the office in the ordinary course of business, subject to any new changes, reasonably soon.

**Gareth Davies:** Yes. We already, some days, are all pretty much back to normal in the office. At the moment we haven't set a rigid rule for how many days a week we expect people to be in—teams are working out what that means for themselves—but we set very clear expectations of what it means to be an effective auditor, particularly where there is an issue about training junior staff.

Actually, the place is buzzing most days in a way that we have missed for a year and a half, so as soon as people experience that they want to continue working that way. So that process has gone well for us so far.

**Q3 Chair:** That is very good to hear. The Financial Reporting Council found some specific weaknesses in the way that you audit—the methodology used for auditing specific financial instruments. How will those issues be addressed in the methodology that you are adopting in the next audit cycle?

**Gareth Davies:** As I think we explained last week, we have a big focus on the audit of financial instruments. A year ago, we set up a centre of expertise for the audit of those parts of the accounts. In response to the FRC's recent feedback we are adding further resource to that centre of expertise, including bringing in some external help as well from firms who audit many more banks and insurance companies than we do.

All that is in train. Clearly, that feeds into detailed training sessions of our teams and our hot reviews, which are internal reviews of audits before we sign them off. They are focusing on those issues too, so, as we explained last week, the whole system is swinging behind that area.

**Q4 Chair:** The question of audit methodology obviously speaks to your software, and some work has been done on that to update it. I think that will come up later, in the discussion on the value-for-money report by Crowe, so I will not ask you about that now. It was also the case that the Financial Reporting Council suggested that you mandate more training and use more post-course assessments, and you in response indicated that you already do mandate technical training; but do you think you need to mandate more in problematic audit areas?

**Gareth Davies:** We think about that very hard, actually, because mandated training means exactly that—it is compulsory. We follow up attendance and ensure that everybody takes it. We do that selectively; we are clear that we are eating into the productive time of our staff as well, but where we think it's essential that everybody has the same training in a

particular ground we do mandate it. But we have to be careful that that doesn't become a default position for every piece of training we have.

So, for example, we fed some of the messages from the recent audit quality reviews into some mandatory training in the recent rounds. We had a session on audit scepticism which was mandatory for everybody. But then we did some more bespoke training on root cause analysis on particular types of audits, and we have only asked the auditors involved in those audits to attend. We have become selective in that way, so that we don't waste resource.

But we agree with the FRC that where training is mandatory, first of all you make sure that your systems ensure full attendance; and secondly, we took their point about post-attendance impact. We have quite a few online training courses that you can't tick off as completed until you pass a test based on your understanding of the material covered in the course. That's fine for immediate recall, but more important to us is that this is a lasting message that has sunk in, so we are developing more post-course assessment that kicks in a few months after your training so that we can tell that it has really stuck with you.

**Chair:** Good. I am keen to get on to today's session as soon as possible. We may return to one or two of those earlier questions later. I would like to invite Sir Edward Leigh to start off today's session.

**Q5 Sir Edward Leigh:** Thank you, Chairman. Mr Davies and Dame Fiona, what was your greatest challenge and what was your greatest achievement in the financial year 2020-21?

**Dame Fiona Reynolds:** Thank you very much for the question. The greatest challenge has to be the covid pandemic in itself. It was a dramatic change to our ways of working, as you have heard, but I also like to think it's an opportunity. It has created space for us to think about new ways of working and all the issues that you have already been exploring on the way we go about our business.

I am very conscious that we had to meet the expectations of Parliament on a big programme of work on covid itself—that was a big challenge but one I think we rose to magnificently—while we continued to support PAC with a string of reports on business that was of pressing importance as well. I think the way in which the staff switched, pretty seamlessly, to new ways of working while keeping that enormous volume of work going was a very, very significant achievement.

One more thing was just progressing with our strategy. It would have been quite easy to just say, "We can't cope with that. We need to focus on covid and the work programme," but actually the strategy, which is something that certainly we both have enormous commitment to, from the very top of the organisation, has been a transformational experience and the staff are really engaged in that work.

So I take great pride in what we have achieved this year. One more thing from me is just the way in which I see the work progressing and focusing



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increasingly on improving Government performance and delivery—not just on telling PAC and others what the Government has not done well, but actually trying to help with frameworks and recommendations that really move things forward.

Q6 **Sir Edward Leigh:** Mr Davies?

**Gareth Davies:** On the pandemic itself, I am extremely proud of the way my teams have been able to produce timely but fair and balanced work on some really difficult issues where people across Government have been moving at high speed, doing some very risky things.

I think we have been able to shed light on how those risks have been managed, both where that has gone well and where it hasn't. It was a case of extracting the learning as quickly as possible from those experiences so that there wasn't just a collective sigh of, "Thank goodness that's over. We can get back to normal business," because we may need some of these things again. Let's hope we don't, but if we do need to help businesses survive further restrictions, the evidence from our work, along with lots of other evidence, will be very helpful to Government, I think, in targeting things more effectively, reducing waste through fraud, and so on.

Q7 **Sir Edward Leigh:** Dame Fiona, you have obviously come in as an outside view. I think you told us last year that, as one might imagine, this organisation was in reasonably good shape, but you must have some ideas as to what is actually wrong and what could be improved.

You have just said that we should perhaps look more at how Government Departments could improve their performance, rather than just constantly looking back and criticising it. What are your ideas on what could be done better by the NAO?

**Dame Fiona Reynolds:** Our strategy sets out a really clear and ambitious programme for improvement. We are not complacent. This is whether we are talking about, as you have in the last few days, audit quality, improving the quality of our work, but also, through our recommendations tracker, making sure that the recommendations that we make, in addition to those that the PAC makes, are taken seriously and taken forward by Government Departments.

As many of you will have heard last time, I am passionate about improvement. I am passionate about looking to understand why things don't always go as intended, as well as what doesn't go as intended. There is the combination of our lessons learned reports, our good practice guides and the way in which we are increasingly building up a body of evidence to help civil servants and, indeed, Ministers to make sure that implementation is better, delivery is better, and there is an increasing focus on effectiveness and addressing some of what we all know are the challenges that are coming—which are even more intractable than those, if I may say so, in your book, Chair. It tracked very clearly the questions of Government major programmes and IT programmes.



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We are now getting into even more challenging issues—climate change and cross-cutting, long-term issues, which we are demonstrating through our work are really difficult for Government to do. I think that over time we can help even more to identify good practice and good implementation.

**Sir Edward Leigh:** Thank you for that. It is always a good tactic to refer to the Chairman's book.

**Chair:** The Chair of the Public Accounts Committee often teases me about it, but that is the first time that somebody else has referred to my book in a meeting, rather than me.

Q8 **Anthony Browne:** Mr Davies, you have been describing how the pandemic has impacted your working practices, but how has it impacted your financial performance? Presumably there are costs associated with your new ways of working, but people still need auditing.

**Gareth Davies:** Obviously, the pandemic hit just at the start of our new financial year, so the budget had been set on an entirely different set of assumptions from the ones that we had to deal with in 2021.

We made some big savings on travel, obviously, and staying away, so there was an underspend on our travel and subsistence budget that was quite significant. We thought that we were going to lose income. We subcontract some of our buildings, so we thought that some of our tenants would hit turbulence and might not be able to pay. Actually, that turned out to be quite a small impact overall.

Equipping our staff to work remotely was a lot less for us than for many organisations, because as an audit organisation we have to be able to work on site, away from the office, so the switch over to remote working was not expensive for us. We had to buy some equipment, particularly for our junior staff who did not benefit from roomy houses with a study and just had a bedsit. They cannot work on their knees on a laptop, so we did buy some desks and other equipment where that was necessary, but those costs were not significant.

The longer-term impact on us has been an increase in our staff costs, because we have needed more auditors to tackle the £370 billion of new spending on top of the Government's existing plans—not just new spending, but risky spending in audit terms as well. We are still dealing with that, as we will no doubt go on to explore this afternoon. Standing back from the pandemic at this stage, the bigger impact has been the need for more audit work to achieve the quality of audit assurance that Parliament is looking for.

Q9 **Anthony Browne:** It is very important for us to all learn the lessons from the pandemic. There might be another one in future. With the benefit of hindsight now, are there any ways you could have used your resources more effectively in meeting the pandemic?

**Gareth Davies:** I really don't think so. We have thought pretty hard about this. Because we were well set up, we did not have lots of costs of



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conversion. I think that is the main thing. The additional costs have been largely activity related.

As the bulge of spending works its way through and the audit issues are addressed, we will, as I think we discussed at the budget-setting hearing of this Committee last time, be able to return those resources, if you like, and reduce our costs on that front. That is not a quick process, but it will happen.

The fortuitous underspend on our travel and subsistence allowed us to cover the costs in 2021 of the additional staff without overspending, which was really important. At no stage have we had any idle resources. The list of organisations that were flat out through the pandemic does include the NAO.

**Q10 Peter Grant:** Good afternoon to all the witnesses. First of all, I place on the record that I am a trustee of the House of Commons Members' Fund, which provides a small, but I have no doubt extremely welcome, element of fee income to the National Audit Office.

On that subject, Mr Davies, your fee income increased by £1.6 million. Approximately how much of that is down to new clients for whom you are doing additional audits, how much of it is because the cost per hour of audit time has increased, and how much of it is because each audit now needs more work, because of the additional assurance that you mentioned?

**Gareth Davies:** I will ask Daniel to give the exact figures, but the bulk of that was additional work at existing audited bodies. The next element by size was fees from new audits that we took on for the first time. A very small amount was fee increases, in terms of daily rates and so on, but Daniel has the numbers.

**Daniel Lambauer:** It is around £100,000 for fee rate increases per hour—this is basically the increase of our fees by inflation—about £1.2 million in additional work for existing audits, and £300,000 for new client audit bodies.

**Q11 Peter Grant:** Thank you. One of the elements of your costs that presumably you have to recover is the use of external professional services, which last year accounted for an additional £2.1 million. What is the rationale behind using external advisers, consultants and auditors, rather than doing the work in-house? Is that something that you see becoming more of a pattern in the future?

**Gareth Davies:** This is a very live topic for us. Essentially, all of that amount is for the additional work that we outsourced to the audit firms that are on our framework contract. We subcontract some of our audit work to the firms, partly to manage the peak. As you know, the financial year end, for all our audited bodies, is the same, at the end of March, so it does help us to subcontract some of the work to the firms. The other reason we do it is where they have specialist expertise and it is a particularly specialist organisation where that would benefit us. Those are





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the two main reasons for doing it. The reason why it went up in 2020-21 was the same reason our own staff costs went up. The audits that we had already outsourced to those firms required significantly more work in many cases, so we had to pay the firms to do that. Obviously, where we could, we passed on those costs to the audited bodies. That explains the vast bulk of that difference.

**Q12 Peter Grant:** You mentioned the fact that almost all public bodies have an accounting year end at 31 March. So do a lot of private sector bodies, although they tend to be a bit more scattered through the year. Are you having to pay more to get external firms to do the 31 March year end audits than you would be if the year ends were different?

**Gareth Davies:** I don't think it's that, actually. You are right. Quite a lot of their other work bunches then. The audit of listed companies—they tend to have December year ends nowadays, and that does help a bit. But our year end is obviously the same as that of local government and the NHS local bodies, so there is pressure on the audit firms around those deadlines. We have recently carried out our latest re-procurement of that framework, and we got some good-quality bids, but the cost has gone up. I think that that is consistent with fees going up in the audit world across every sector, which we have noticed. What that means is that the value for money question for us—is it still a good idea for us to outsource that proportion of our work?—is going to be a very live one next time we re-procure. We will have to do some very careful thinking, because clearly we cannot just—if we just drop that capacity, it has big implications for our own recruitment and our own costs, so I think that is unlikely, but getting the level right so that we can be confident it represents value for money is going to be important.

**Q13 Sir Edward Leigh:** This leads me—it is a bit tangential, but in terms of getting professional help, outside help, one of my children is a civil servant and she and her colleagues in the civil service are driven absolutely crazy by the fact that the Government cannot do anything now without bringing in outside consultants. She and her colleagues are working for a pittance of a salary. They are highly skilled people, but every time they come across any problem, their lords and masters bring in consultants, who do exactly the same work—they are no better people—at vast cost. On an ongoing basis, are you looking at this?

**Gareth Davies:** Very much. You may have seen our findings on the Test and Trace operation. One of the most significant value for money points we raised was the fact that the use of consultants, which you could understand for setting up a brand-new body from scratch, was persisting into the later life of that organisation. The PAC has reported in pretty strong terms on the inability of the management of that function to reduce the level of consultancy spend despite that being an objective for some time. That is just one example. We obviously look at that wherever it is a matter of importance on individual services. We have also raised it as a Government-wide challenge. It has been very good to see the Cabinet Office, Lord Agnew, leading on actually developing a civil service capacity for specialist expertise, rather than going immediately to high-cost





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external providers. The model there is, I think, that if a Department is not able to handle an issue itself, it goes first to the civil service's own body of expertise, before it goes out to the external market. I think that's a good model to develop.

- Q14 **Chair:** Can I pursue that a little further? In 2009, the National Audit Office did a study on the capability reviews, which were led by Gus O'Donnell when he was Cabinet Secretary from 2005 onwards. Of the 10 snapshots on things such as human capital and financial management across 17 Departments—a total of 170 snapshots—the NAO study showed that Government Departments were less than well placed in two thirds of those 170 snapshots. When John Manzonei was chief operating officer of the Government, many years later, he referred to “a lack of distributed capability” in Whitehall. I think that was eight years after your report. It is now 12 years since that study, and we are still talking about finding ways for the civil service to develop the intel capacities it needs. Some 15 or 16 years after the capability reviews, what is wrong? There is obviously a systemic problem, isn't there, or they would have solved it by now—but what is that systemic problem and how do you solve it?

**Gareth Davies:** You mentioned John Manzonei. He was associated with the development of stronger Government specialist functions. I know that work has been continued by Alex Chisholm since he took over that role. In some cases, those have delivered.

- Q15 **Chair:** You mean a head of profession for the finance function, for HR and so forth?

**Gareth Davies:** Or the commercial function, the legal function and IT, come to that. We recently reported on the specialist skills being developed across Government, tracking their progress. One of our findings was, maybe not surprisingly, that the maturity of those functions varies pretty significantly. Some are well developed and delivering a consistent level of advice to Departments, but others not yet. We issued quite a challenging report on the extent of digital skills across Government, on which PAC held an interesting hearing a few months ago. That is a good example of a function that everyone recognises is underdeveloped and needs a fresh approach if Departments are to take advantage of efficiency gains through better use of technology.

- Q16 **Chair:** Was not the Government Digital Service, launched nine years ago, part of an attempt to do precisely that?

**Gareth Davies:** Yes, but we have reported many times on things such as the Verify scheme and so on, which have shown that not all of that has been effective. The GDS itself is not the whole answer to digital skills in Departments themselves. That was an interesting hearing and a useful response from the Government.

- Q17 **Chair:** If we can turn to your annual report and strategy, you talk in your strategy about being an “exemplar organisation”. Can you elaborate on what that means?

**Gareth Davies:** It is partly because of our position: we spend our time helping Parliament to hold others to account, and that really only carries credibility if we are ourselves a well-run organisation and can explain how we deal with the very issues on which we are challenging Government Departments and other organisations. It is essentially to be able to earn our authority and our respect among those we audit. That means, obviously, that in areas of value for money we need to have highly effective processes and to demonstrate that we use the resources entrusted to us very well.

It also means being an exemplar on people leadership. We have had a big focus in the past two years on developing our leadership capabilities across the organisation, developing a more diverse leadership group in the organisation and providing really effective professional development for our staff, so that they not only want to stay at the NAO, but become even more effective as they do stay. That has been a big culture shift in the NAO and we still have plenty to do on that front, but it feels like we are making good progress, and it has visibly unlocked so much more potential from the organisation already, which is a big encouragement to keep going.

Q18 **Chair:** One other area you focus on in the strategy is long-term value for money, which immediately reminds me of Dame Meg's focus in the Committee for many years now on cost shunting. A simple example is the sale of school playing fields; I think 10,000 were sold over 35 years, which helped local education budgets in the short term but has undoubtedly contributed to the epidemic of obesity we have seen over the past few decades, so the cost is shunted from education to health. Dame Meg has pointed to many other examples. To what extent have you been able to look at those long-term priorities and achieving long-term value for money with the pandemic going on?

**Gareth Davies:** Fiona might want to come in on that.

**Dame Fiona Reynolds:** Briefly, yes. I have been particularly interested, perhaps for obvious reasons, in two reports: the net zero report and also our report on the Government's 25-year environment plan, which are both very long term, very strategic ambitions. Frankly, the reports that we examined were less than adequate to meet the need. I think this plays into my earlier point about our looking increasingly at issues that are cross-departmental and long term, which may require different methodologies within Government to deal with them. We are looking internally as to whether it requires us to look at our methodologies as well, so I think there will be an increase in numbers of these kinds of long-term analyses that we will be doing.

**Gareth Davies:** I would also say, on your specific point, the NAO is potentially part of the problem on departmental silo thinking. Clearly, we audit Departments, and we hold them to account on their major projects, for example. If all we did was focus on permanent secretaries and hold them to account for their own projects, I think we would be adding to that problem. That is why the increase in focus through the strategy on cross-



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Government themes and areas where Government need to co-operate is so important. We will still do the accountability-type reviews on, for example, the replacement for the police national computer, which is an ongoing project. We will still do that, but we are also challenging them: if you are going to deliver the stated policy on net zero, you have to work across departmental boundaries, and we will hold you to account for how well you do that, too.

**Q19 Chair:** Obviously the structure for accounting officers, which is what you are talking about, can cause problems, but doesn't managing public money actually deal with this? Does it deal with it adequately?

**Gareth Davies:** It tries to, but in the end it depends on human behaviour. Where do people feel the most intense pressure and accountability? If it is to your Minister in your Department—quite rightly—that drives their behaviour. The first major experience in recent years that drove cross-Government work more effectively was preparations for Brexit. It is just as well they had some of that experience going into the pandemic, because some of those cross-Government management arrangements have been necessary on a much bigger scale through the pandemic, and some of that is now being translated into arrangements for delivering net zero. There is learning going on here. The existing mechanisms can cope with it, but it requires real discipline to say, "I know that we have to play our part in this Government-wide objective, even if it is not No. 1 for our Department", and that is tough, I think.

**Q20 Dame Meg Hillier:** Mr Davies, you spoke last week and a bit today about the challenge of doing things remotely, with certain things being okay remotely and certain things not. Going forward, you have a potential opportunity to save money because some things will be more efficient done remotely. How will you get the balance between quality and remote working? What do you want to keep going remotely that will have a tangible difference on your budget, and what do you think you need to keep doing in person?

**Gareth Davies:** I think transactional-type meetings and so on work perfectly well online, but for good quality auditing you need to be face to face with the people you are auditing. You need to understand the body language—what is really driving them and worrying them— and that can be hard to pick up through a Zoom call. We are being very clear with our teams that part of auditing is getting to know the people and where the risks and challenges really lie. That comes with experience, so we will help our junior staff develop that judgment along the way.

We are definitely going to need less office capacity in total, because people will be working in a wider variety of locations. On our plans that we set out last year, we will continue to let out a bit more of our building than we did before. That will be a more efficient use of that asset without depriving anybody of somewhere to work when they need to be in the office.

What we have also learned in the pandemic is that if people just need to get their head down and work on a report, they can do that efficiently at



home for that day. What we need is high-quality collaboration space in the office, so we will need to do some reconfiguring in the smaller footprint that we are left with to make sure that people get full value from when they are in the office. We can see how this is going to develop. I think overall that will be a more efficient use of our assets.

- Q21 **Dame Meg Hillier:** Just to pin that down: you might make a bit of money by letting out part of the building, but what about day-to-day operating costs, in term of reduced visits? How are you making that hard-nosed decision? You said earlier—I think it was last week—that you do not necessarily need to visit for a month. Therefore, when a team says that they want to go and visit, because they want to see the whites of their eyes, but they want to visit for a month, how are you going to manage that tension?

**Gareth Davies:** The teams are obviously the people who understand each of our audited bodies. The directors in charge of each audit will make a judgment about it. We have just finished this year's round of challenge meetings, where every group comes to me and says, "We have worked out the resources we need to deliver our audits next year, and these are the assumptions we have used about remote working and where we need to visit, and here are the staff, travel and staying-away costs." We have a good challenge process for spotting any outlier; maybe somebody is not sufficiently embracing the new ways of working, or maybe somebody is actually too comfortable at home and we need them with their clients and in the office. That process is unfolding and going well so far.

- Q22 **Chair:** On the subject of property, I want to bring Nick Brown in on the Crowe report, and I think Jack had a question on this topic. However, on the subject of property, your accounts show that the property valuation has been marked down. Is that merely a technical adjustment, or does it have any real impact on you? What are the prospects of being able to let out the extra space?

**Gareth Davies:** I might bring Daniel in on where we are with the letting-out process. The valuation is an accounting adjustment. Obviously, this valuation was struck on the 31 March, in lockdown, so the indices for valuation that were being used for central London property were dipping. It is an artifact of the valuation process and has no practical impact on our finances.

- Q23 **Chair:** What about the letting out?

**Daniel Lambauer:** Our aim is to let out a further four floors; we are currently letting out eight floors. We have seen some interest. We are working with the commercial partners you would expect; there were some organisations that were interested, and were quite close, but we have not closed the deal. The current situation brings some uncertainty again. Sometimes my commercial department tells me we are close to closing a deal, and then it falls through again. We have been making assumptions for the next year, and we do not think that we will hit 100% straightaway from the beginning of the financial year. We think we will hit 70% at first, and then 80% and 90%. We may be lucky and go further. The advantage



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is that these are quite small office spaces; I think many people are downsizing and looking for better places near good commuting stations, such as Victoria.

**Chair:** Yes, they are quite attractive. I will bring in Jack Brereton and then Peter on this point.

**Q24 Jack Brereton:** The point I was going to raise relates to what you said about cross-Government working, and the fact that we have seen it increase as a result of Brexit and covid. However, that has come at the cost of seeing the public sector grow larger than it has ever been before. How do we cope with that challenge? Some people say that it has grown to unaffordable levels; how do we deal with that moving forward? Obviously, we want to continue to see cross-Government working, but the increased pressure this burden puts on the public purse is going to be increasingly challenging to maintain.

**Gareth Davies:** That is a really important point. Our approach is to challenge the premise that working across Government means extra cost. Actually, if it is done well it should avoid that. The alternative is that Departments build up their empires and duplicate functions; if they were working collectively and efficiently some of those costs could be stripped out. Our line of attack on your question is that effective companies do not sit there separate from one another and build up their empires. They work out the quickest way of achieving what they need to achieve, and they work out how they will deliver quality for their customers with no excess cost. That is the mindset, rather than competing armies of civil servants.

**Q25 Peter Grant:** Your ability to let out part of the accommodation that you have has clearly had an impact on the valuation. The revaluation of your properties led to a net reduction of £11.8 million in value. That is on top of the annual depreciation charge, which is typically about £3 million. There has been quite a significant hit to the bottom line of the balance sheet of the NAO. Is that £11.8 million real money that we should regard as having been lost? Does it in any way affect the decisions you take in the next few years in balancing the NAO's books?

**Gareth Davies:** No. It is not as if Parliament has had to vote us extra money to cope with the valuation. That is a balance sheet adjustment. It goes to our revaluation reserve. In previous years, it has shot up because of the property market in central London, and we did not benefit in those years, either. And there is a lot of revaluation reserve left before there is a balance sheet problem on equity. So, yes, it does not have an annual financial impact for us.

**Chair:** Nick Brown.

**Mr Nicholas Brown:** With your indulgence, Chair, can I follow up the property inquiries first and then come to the Crowe report?

**Chair:** Yes.

**Q26 Mr Nicholas Brown:** Your principal property holdings are the site in



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Victoria and the site in Newcastle-upon-Tyne. The Newcastle site is where work on the Department of Social Security as was—it is the DWP now—is carried out. It is a perfectly sensible and convenient location, because “The Ministry”, as it is known in Newcastle, is just up the road.

HMRC has said that it will not renew the lease on the site, which I think is one of the largest sites in western Europe, but the Department for Work and Pensions’ position is not so clear. Were they both to abandon the site, which is a relatively new build, that would leave a couple of significant questions in where will they go and what is to be done with this relatively modern site? Can I check that you would never think of abandoning your outpost in Newcastle?

**Gareth Davies:** I am remembering your constituency—

**Mr Nicholas Brown:** I am getting my early representations in. How far do you have an insight into what is going on and what seems to outsiders as different decision making by two Government Departments whose modern business overlaps somewhat? You could blame the last Labour Government for that to a certain extent—and I would have to say that I understood that. What will happen next? Have they told you?

**Gareth Davies:** No, I cannot comment on their accommodation policies. Although I do remember that when I was talking to our Newcastle staff last week, they were saying that there was a big story about HMRC’s new site in Newcastle city centre and some questions about the ownership of that new site were causing queries. I think that HMRC’s plan is to relocate in Newcastle.

**Mr Nicholas Brown:** I actually know about that bit.

**Gareth Davies:** I bow to your knowledge there. But what I can say is that it would be very odd for the NAO to withdraw from a big base in Newcastle at the same time as the rest of Government is moving significant amounts of staff north, including to the north-east—

Q27 **Mr Nicholas Brown:** Are they?

**Gareth Davies:** Well, the Treasury in Darlington is a big development, which I know is not Newcastle but it is heading that way. Our lease ends at the current office in 2023, and we already have a project for replacing that with a modern office in Newcastle city centre, so we will continue to be based there.

The other point is that things have moved on a bit since that office was created. So no longer do we have a team just focused on DWP or HMRC based there; we have staff working on all of our teams based in Newcastle, because we are recruiting talented people wherever they are based.

Of course, nowadays—even more so post pandemic—it matters less where your office location is to be able to be effective. One of my management team is based in Newcastle, as are several directors; they work across





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teams across Government Departments. So it is a fully integrated part of the NAO rather than an offshoot focused on one or two Departments.

**Q28 Mr Nicholas Brown:** So I can take that as a reassuring answer.

**Gareth Davies:** Yes.

**Q29 Mr Nicholas Brown:** Good. Thank you for that.

Moving on, I wanted to ask about the recommendations of the Crowe study—in particular the recommendation to introduce a framework contract, which I think arose from consideration of the issues associated with procuring external specialist expertise.

**Gareth Davies:** We look at this all the time. We agree with Crowe on the issue he highlighted. The question is always how much of this expertise we need, and is it better acquired through a framework or not? We come on and off frameworks, depending on what we think is most advantageous to us. Daniel, do you want to explain where we are?

**Daniel Lambauer:** This is a live debate in the NAO. Generally speaking, yes, frameworks allow us access expertise cheaper and faster. That is partly what is needed when we do the VFM reports.

The problem is that the type of expertise we need for VFM reports is quite diverse, so putting a framework together is not always straightforward. Since the Crowe report was completed, we sometimes use Government frameworks as well—there are new Government frameworks in place. In the next month, a colleague of mine is bringing it to our executive team and the board to decide what the best options are.

**Q30 Mr Nicholas Brown:** So eventually we will hear more from you?

**Daniel Lambauer:** Correct, yes. We always follow up all the Crowe recommendations annually, so there will be another follow-up report next year, which of course will be publicly available and available to you as well.

**Mr Nicholas Brown:** Thank you for your indulgence, Chair.

**Q31 Anthony Browne:** My question is about the timing of your audits. If I am reading the figures right, there was a slowdown last year. In 2019, you had certified 76% of audits by summer recess, but last year, that had almost halved, to 42%. I presume that was the impact of the pandemic, as we have discussed, but was it a result of difficulties the Government had in preparing their accounts ready for audit, or of delays to your auditing process, or a combination of both?

**Gareth Davies:** It was both, but primarily a result of the fact that Government Departments were preoccupied in many cases. It is no surprise that the latest Department to have its accounts certified for 2019-20 was the Department of Health and Social Care. That was January, rather than pre-summer recess, as normal, so that is a long delay, but the rest were sometime between the summer and the winter.



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There were some honourable exceptions. DWP was really impressive, given that its workload massively increased at the beginning of the pandemic, with universal credit claims going through the roof. It still managed to get its accounts completed before summer recess 2020 and has done it again this year, 2021. The Home Office managed to get to pre-recess this year, as did the Treasury, which has quite a lot of complicated schemes to account for as well.

There was some really high performance in accounting terms across Government, but nobody is thinking that the Department of Health and Social Care somehow missed an opportunity to complete its accounts. That is still a very problematic set of accounts—the 2021 accounts—because it contains all the expenditure on PPE, on Test and Trace, and on the vaccines programme, and the records on that are in a pretty challenging state. It is already evident that they will be heavily qualified accounts, so there is a huge job to be done in that Department getting back on to a pre-recess track.

We have agreed with the finance leaders group—the finance directors of every Department—a programme for getting everything back on track as quickly as possible. Many more Departments will be pre-recess next summer, so it will be the exceptions that are left—DHSC is very likely to be one of them. If it is the only one, I will be extremely pleased, but I will not be surprised if one or two others do not quite make it in one go.

I pick out BEIS, for example; we may be able to get to pre-recess next year, but this year we have to account for bounce back loans and the other credit schemes through the pandemic, which are entirely new loan books for that Department. Finance teams across Government have made a huge effort, as have our audit teams, but I think where we got to in the pandemic is a pretty creditable achievement. We just need to get back as quickly as possible.

**Q32 Chair:** May I follow that up? I know Jack wants to as well. I remember that during the financial crisis the second permanent secretary at the Treasury said, “We were aware that this was going to go very fast in terms of the support made available to prop up financial institutions.” We knew straight away that we would need to have what I remember describing at the time as a “keeper of the flame”, and Sir John Kingman agreed—someone to note down what was being done in real time when it was being done extremely fast.

Are you saying that Departments, particularly the Department of Health and Social Care, did not do that? It would have been a very obvious thing to do, and for the accounting officers to insist was done, so that at least they would have something to look back on that showed what every expenditure went on—how much, for what, where it was stored and so on.

You say that the records are in a challenging state. Do you mean that that sort of information was not available or that it is more of an auditing accounting problem—a technical one?



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**Gareth Davies:** It is a big topic. We will be doing an entire report on this and I am sure that the PAC will be holding a hearing on it in the new year as well.

First of all, the Department did recognise the need for additional senior focus on this. It created a second permanent secretary role right at the start of the pandemic and that second permanent secretary was tasked with keeping an eye on the finances. That was a big step at the time that turned out to be necessary, I think. Obviously, lots of other things in terms of their management structure followed from that.

Exactly on your point, there was an effort to make sure that, when the PAC needed its many hearings with the Department in the ensuing months, there was somebody with that senior capacity to come along and provide the evidence.

The issues that I was referring to really lie in the speed with which some of those procurements had to operate. This is the really challenging territory of acknowledging the very unusual circumstances but also insisting on minimum standards. That is the line we trod.

**Q33 Chair:** It was more of a procurement regulatory problem—more about following the normal procurement rules than a “keeping score” problem.

**Gareth Davies:** That was the key problem. It is not going to be possible, for example, for the Department to value its stock at the year end because it cannot produce a reliable figure; it does not have the records to do that. That would be one area where we will be qualifying our audit opinion on the Department’s accounts.

Of course, that problem does not go away until all the stock is tracked down, valued and included in the accounts. We are some way away from that, even now. That is an example of the unusual nature of it.

Of course, one of the things that has happened in the pandemic is a reorganisation of various parts of that system—the creation of UKSA to take on the Test and Trace function. Part way through this financial year, new organisations are inheriting some of these unclear asset values. This is not an easily containable accounting challenge; it will be with us for a couple of years at least.

**Q34 Jack Brereton:** We obviously understand the challenges faced as a result of the pandemic, but as you have said some Departments have handled the situation far better than others.

Have you looked specifically at where there are genuine issues because of the pandemic and in other areas where it was not the pandemic but there were competency issues—problems with what was going on in some of these Departments, which were preventing them from living up to the same standards as we have seen from Departments such as DWP?

**Gareth Davies:** We have definitely tried to extract the learning on exactly those points. I give you one example. We thought that DWP had a very good approach to assessing the risk of removing controls in the early



phase of the pandemic. That included understanding the likely financial impact of that on increased levels of fraud and error and then having a well governed set of decisions, including their audit committee and board—"We think we are going to need to take a temporary higher risk appetite here for good reasons. We cannot bring people into jobcentres for face-to-face identity checks anymore. Until we can, we know we are going to run a higher level of risk, and here is our estimate of what that is likely to be."

That was a really well documented and thought through process. It did not take a long time, so there are very good ripostes to the argument that it was just bureaucracy that slows down an emergency response. Good management can be very efficient and quick and it turned out that they were right—they did have a big problem with fraud and error going up. The PAC has recently held a session on that. Obviously, they returned controls as quickly as they could but there is then the challenge of getting that level back down again.

**Q35 Jack Brereton:** Have you identified Departments where you have those wider concerns about competency?

**Gareth Davies:** Yes, we have, in our individual reports, and those have all come out in the PAC hearings held on each of those reports. The difficulty is that each Department is dealing with a different challenge—it is not like they are all grappling with universal credit—and some were inherently more difficult than others, so it is pretty hard to come up with a league table. But that does not mean that there isn't really important learning to be extracted in each case.

**Q36 Chair:** C&AG, you do surveys of the perception of MPs of the NAO. One highlight is that only 56% of MPs would speak highly of it, as opposed to favourably. Have you sought to understand why that is the case?

**Gareth Davies:** Yes. We are very interested in those numbers. Obviously, we exist to support Parliament, as our key stakeholder, so what MPs think about our work is very important. In my view, that is largely driven by the awareness measure; you will have noticed that that figure was at 60-something per cent., which was again not as high as I would like.

That was partly because it was our 2020 survey—the first survey after a new intake of MPs. We have a big education job every time there is a general election to explain our role to new MPs. That was hampered by the pandemic breaking out very soon into the new Parliament, so we could not get in front of people, face to face, in the way that we normally would.

I think it is largely awareness, but you will have noticed that some of the other measures are extremely strong. Our reputation for impartiality, which is essential to our being, is very high. Our reports being regarded as high quality and authoritative also got very high scores, so we see no reason to fundamentally worry, but we have been working hard on contacting MPs through different routes.



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MPs get, as you know better than I do, so many emails, contacts and newsletters that we have tried to devise more efficient ways of getting better understood. One of the more interesting ones is working with the researchers' network. Some of my staff have spoken at online events for MPs' researchers. That has been a really effective way of making sure that, when our email pops into the inbox, the researcher does not delete it or put it in the junk email folder, and so on. We are working on different ways of raising the level of awareness, which I think is key.

**Q37 Chair:** One of the tricks that some MPs now use, because so few people write letters, is that if you receive a topped and tailed letter, you think, "Oh my goodness—I must do something."

**Gareth Davies:** I shall get my quill pen out.

**Q38 Chair:** You used to have a little A5 booklet, which had a list of every Department, with every value for money director and every financial audit director, and their phone number, email, name and photograph. This is an old-fashioned plea, as an old-fashioned person, who spent most of his misspent use elbow-deep in printers' ink, but is there any chance that we could have a little booklet back, in the old hard copy way? If I can find the old one, I will get it to you.

**Gareth Davies:** I am happy to try anything.

**Chair:** Certainly I found it very useful.

**Q39 Dame Meg Hillier:** One of the new innovations that you have brought in is the NAO recommendations tracker, which is certainly a useful tool. Can you tell us how much it cost to develop, and what you think it is bringing in terms of value added to your day-to-day work?

**Gareth Davies:** There was no external cost involved. We have that capability in-house now, and we used the same technology as we used for our covid cost tracker, so there was no consultancy spend or external spend. Clearly, some staff time was involved to pull it together, but a big chunk of every audit team's workload is following up previous recommendations, so this is work that was going on before; we've just pulled it together into this more accessible, more usable tool.

Publishing it in that way is already having some interesting effects. Departments are concentrating much harder before they agree our recommendations, because they know that there is some public accountability. They were always public recommendations, but the following up of action has not been public in this way, so that is concentrating minds. It is also concentrating minds inside the NAO.

We always think pretty hard about the recommendations that we make because we do not want to direct people into wasteful activity, but this is making us think even harder because we know that whether they have turned out to be useful or not is going to be visible.

The final point is that it has triggered some really interesting public accountability behaviour. The day after we put this on our website, the



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Food Standards Agency issued a press release explaining how it had implemented the recommendations from a two-year-old NAO report, and what had happened as a result. It is pretty clear that they did that because they knew this would be in the public domain. If that becomes a widespread reaction, that is a good development.

**Dame Fiona Reynolds:** The board finds it really helpful as well. From our perspective, being able to see the pattern of our recommendations and having the ability to track them, as a general performance measure, really helps us as a board to see what is going on. I completely agree with what the C&AG has just said: it helps us to look at the nature and consistency of our recommendations and to take this piece when looking across Government as well. I think it is a really helpful tool. I am sure over time it will get even more useful.

**Q40 Dame Meg Hillier:** When the PAC puts out our reports, Departments have to say that they agree with a yes or no. There is no halfway house. We had an interesting session with the permanent secretary at the Treasury the other week, where they had overthought it and, in the room, overturned their position, because rather than picking up the phone and asking what a word meant, they thought about it in too much detail. Do you think it is a problem that they have to agree with it in this binary way? Do you think it can be honed, so that there is a partially agreed recommendation?

**Gareth Davies:** Our longer-term development plan is to have a bit of narrative attached to each one. It is useful to know whether it has happened or not, but it is more interesting to know what difference it made. We wanted to get it up and running and get people used to the mechanism, then we will develop it as we go.

**Q41 Dame Meg Hillier:** Have you thought about sharing this with other supreme audit bodies around the world? Certainly, in the Commonwealth work that I am privileged to be involved with, there has been a real desire to track recommendations of both the supreme audit institution and the PAC. We are working on it on the PAC side, but have you thought about that and talked to your colleagues around the world?

**Gareth Davies:** Yes. We have lots of contacts of that kind, including through the CPA. We are often asked about things that we have developed, and pandemic reporting was a big topic around every audit agency and, not surprisingly, around the world, given that everyone had the same problem. International sharing of approaches has been more intense in the last couple of years as a result. If people are interested in that, we will definitely make sure they know about it.

**Q42 Dame Meg Hillier:** Is there a money-spinning opportunity there?

**Gareth Davies:** Not a big one. It is pretty simple technology.

**Dame Meg Hillier:** It is worth trying.

**Q43 Peter Grant:** Your annual report claims that there is a beneficial financial impact of £13 for every pound that is spent. How robust is the





methodology that you use to arrive at that figure?

**Gareth Davies:** That is a question I asked when I started this job. I was surprised at how well developed it is, actually. This methodology has been developed over a long period, so there is a good history to this. It is a very carefully managed process of identifying where recommendations that we have made and that have been agreed and implemented have resulted in either a one-off or an ongoing saving to a Department. Those are identified and quantified. There is a challenge process that goes on, and then there is an audit process outside the NAO, which gives an external validation to it. It is not a number that we can just pluck out of thin air. The Department has to agree that it is accurate and backed up by evidence. Then that has to be audited externally. That is the strongest system on this kind of measure that I have seen anywhere.

**Q44 Peter Grant:** Is there not a potential interest from the Department to show how clever it is and to agree that they have actually saved lots of money? On a related note, if the Department is then audited by the National Audit Office, we still do not actually have a completely independent verification of what on paper looks like quite a significant financial return you are delivering.

**Gareth Davies:** That is an inherent problem of being the audit institution at the top of the Government tree. There is the "Who audits the auditor?" question. This predates my time, but that is why an external audit process was brought into this. It answers that question: "How do we know that this is not just a convenient agreement within two parties, whom it suits to claim a success here?" That challenge does result in some numbers changing or being fundamentally rethought, so it is not as if it is just a rubber stamp either. As I said, it is a surprisingly effective process for what has obvious limitations otherwise as a system of accountability.

**Q45 Peter Grant:** Have you any plans to package that up with the proposal that Dame Meg made earlier and make it something that you would market to other audit bodies?

**Gareth Davies:** A common question among audit institutions around the world is: how do you measure your effectiveness? This is part of that. This is only one part of our effectiveness, and others do similar things. In the US, there is quite a big focus on the impact of their recommendations and whether they have achieved any financial return. This has been shared and discussed internationally. We are always being asked about this, and we ask other people whether they have devised new ways of measuring effectiveness—financial and non-financial.

**Q46 Peter Grant:** One of my concerns in this area—you will be aware that, on the Public Accounts Committee, it is a very common issue, and very often it is an issue that your staff flag up to us before we question witnesses—is that Departments will sometimes make very specific claims as to the financial benefit to the taxpayer of things that they have done, and quite often the Committee will then report back and say, "We can't see any evidence for that. There isn't anything to back it up." Why is it that the Commission, which has a couple of members in common with the



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Committee, should accept the numbers that you have reported for how much benefit you have delivered to the taxpayer, at the same time that your colleagues are suggesting to the Public Accounts Committee that we should not accept the same assurances from them?

**Gareth Davies:** You are right to bring that challenge to us. That is exactly what we do, as you say, to the Government. The nearest we have got to the NAO is Crowe, who do the external audit of these estimates. They are providing the assurance that we provide to PAC. Without inventing another institution to add to what is already there, that is as close as we can get in practice.

Q47 **Peter Grant:** Thanks. Would all of that 13:1 ratio have been achieved just through the good offices of the NAO, or does Dame Meg deserve a mention? Did some of it need a bit of a prod from the—

**Gareth Davies:** One of the hottest topics in the audit process that I was describing is the question of attribution. To whose credit should these savings be? Would this have happened anyway? Was it already work in progress? Was it an insightful report from PAC? Was it something else? That gets thrashed out as well, and it is quite a high burden of proof to say that it is anything to do with the NAO.

Q48 **Peter Grant:** Finally on this one, the figure that you quoted this year was £13 per £1 spent. In the previous year, it was £16. Is that a real reduction? Is it something that concerns you? Does it mean you are getting a bit too close for comfort to the £10 target that you have set yourself?

**Gareth Davies:** That is a really big point. This is a relevant measure for us, but it is not the be-all and end-all. The fact is that we are still above target but not quite as much above target as we were last year. The figure will go up and down, and I am sure that at some point it will go below £10 in a particular year. If I directed my audit programme only to this measure, I think Parliament would feel that we had got too distracted. It is obviously very good to achieve savings, and it is a key part of the value for money of the organisation, but you also need me to provide assurance on high-risk areas of public spending that may not produce savings figures. Quite a lot of my pandemic reporting, for example, has not driven a number to go into the table, but it is still essential that we do it.

While this is always important, it is right to challenge us if we start dipping on this. If I have a defence to that because of the balance of our programme, then I will stand by that and will not regard that as a failed year because we dipped on this measure. In the same way, if you ever see me over-claiming for a particularly good year, I think you are entitled to say, "What about the rest of your responsibilities, and have you adequately covered questions of accountability for public spending as well as these value-for-money measures?"

Q49 **Anthony Browne:** This is my first meeting here, so I will use it as an excuse for asking a basic question. I have seen a lot of financial impact assessments in other areas of public spending, but not in auditing. How do



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you define the financial impact of £13 for every £1 spent? Is that compared with the counterfactual of audit fees that would have been spent otherwise, if we did not have the National Audit Office? Is it because you make Government more efficient?

**Gareth Davies:** The £1 spent is the cost of running the NAO, so that is—

**Anthony Browne:** It is the benefit that I am querying about.

**Gareth Davies:** It is essentially a list of individual pieces of work that we have done that have resulted in recommendations from us to the Department that they have implemented, and an identifiable saving. Some of these are just one-offs, and some are ongoing. We have a methodology for how long that ongoing saving counts for—typically, two or three years, depending on what it is—and then it drops out.

Q50 **Anthony Browne:** Through the recommendations you get—rather than a narrow audit.

**Gareth Davies:** Yes, exactly. It is a list that is then audited.

Q51 **Anthony Browne:** You have been discussing how the pandemic led to a temporary additional workload, but as I understand it you hired permanent members of staff to deal with the temporary workload. Why did you hire permanent staff to deal with the temporary workload?

**Gareth Davies:** Quite a lot of temporary staff as well. The bulk of our additional cost for the current financial year—I am talking now not about '20-21, but about the current financial year—is temporary staff. When we reduce our resources, when we eventually don't need to audit quite as much of this risk, the first place we will go to is that temporary staff budget. I think it was £2.6 million in the year we are looking at here, '20-21, and it is over £3 million in the current year. That is the first place we will go for the reductions in the temporary capacity required.

The increase in our permanent staff has been relatively modest in comparison. That is some of it, but some of it is more related to our strategic investments in knowledge and value for money—which predates the pandemic. It is our 2020 strategy, which we discussed here a couple of years ago. So, some of the staffing is there to have more robust commercial expertise in the organisation, for when we are auditing commercial contracts, looking at fraud and error, risk management and so on, in these new hubs we have. That is where some of that additional staff goes, as well as our audit teams.

There will certainly not be a problem of us having staff we have over-recruited to deal with the pandemic risk, because turnover is already picking up in our qualified staff. The external market, prior to last weekend, is getting more buoyant, so we are very confident that we will not need to take drastic action on our permanent staff base. There is plenty of room to reduce our temporary staffing as the pandemic work works its way through.

Q52 **Anthony Browne:** My next question was about turnover. I understand



that the turnover among your analysts was nearly 20% in the last financial year—which is actually less than some of the figures I have seen for the Treasury, but higher than some other places. Is that a concern, a churn of one in five staff in one year? Are there things you want to do to address that?

**Gareth Davies:** It is a little higher than we would like. We have estimates of the turnover at each grade. The one that we expect the highest turnover at is, essentially, the entry grade for our value-for-money work, so incredibly bright people who develop their skills with us but often then want to go on to other roles elsewhere. But many stay and get promoted in the NAO to senior analyst and then more senior jobs.

We target about 16% as a turnover level that would work for us at that grade, so 20% is a bit too high but not too far away. The next highest one is our newly qualified financial auditors, where we target about 15%. That one is also now just creeping above that in the current measures, so we are keeping a very close eye on it because we cannot afford to lose people we have trained and then need for next year's audit round and so on. We are doing a lot of work on retention, motivating people with interesting work and developing their skills after they have qualified.

Q53 **Chair:** What is the Goldilocks number? I used to represent the management consultancy industry, many years ago, and I remember one of the partners in one of the big firms saying, "If it gets above 17%, we start to worry. If it goes below about 12% or 11%, we start to worry." They, like you, are big training organisations. What is your Goldilocks number?

**Gareth Davies:** That is about right for us, too—15% for those who are newly qualified, at what we call the audit principal level. As you say, that little bit above and below is not a problem, but it is if it is getting too far in either direction. If it goes too low, we have an issue about progression and being able to give people development opportunities.

**Chair:** Jack wanted to come in on this.

Q54 **Jack Brereton:** Thank you, Chair. We have a high level of vacancies in the economy, so have you faced any specific challenges in recruiting and in recruiting the skills that you need to fill those posts?

**Gareth Davies:** We have done really well so far, having heard the difficult stories about what other sectors have been facing. We have had really high-quality shortlists for the hub director roles that I talked about—we have been able to recruit really great people from the private sector and the public sector, from a strong choice. The reason we are so focused on the newly qualified audit bit of our structure is that we anticipate that will be a very much more demanding market to hire from if we need to. At the moment we are okay, but every firm is building up its audit team capability in response to pressure from the regulator and, actually, from growth in work, because the market is changing quite quickly. Firms outside the big four are growing at an astonishing rate and are hungry for recruits.



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**Q55 Jack Brereton:** How many vacancies do you have at the moment?

**Gareth Davies:** We don't have any at that level right now.

**Daniel Lambauer:** No.

**Gareth Davies:** We are around about our target level. Our trainee intake that joined at the beginning of September—around about 75 trainees—was up to strength, so we didn't have any gaps.

**Q56 Jack Brereton:** But do you have vacancies within the wider organisation?

**Gareth Davies:** We will have routine-type vacancies, but nothing that we think is proving hard to fill—

**Q57 Jack Brereton:** So there are no specific roles that you haven't been able to recruit to.

**Daniel Lambauer:** There are one or two in corporate services on the digital side that are recruiting at the moment, but there is no indication yet that it is going to be a problem.

**Q58 Chair:** You have a section in the report on pay gaps. You have had a plan to deal with your gender pay gap and move towards gender equality for some years. The report includes an ethnicity pay gap as well for the first time. Yet, four years after you started measuring this, you have not yet seen a tangible change in the gender pay gap. You are now measuring for both gender and ethnicity gaps. When do you think you will make serious progress on both of those? How long will it take? What will good look like, and when?

**Gareth Davies:** I am going to do what I know the PAC does not like permanent secretaries doing, which is give you more up-to-date data—but it is relevant in this case.

On gender, the pay gap was 9.99% at the end of the year 2020. In March 2021, which we have obviously not reported on publicly yet, that pay gap has gone down by 1.73% and is now 8.26%. It is still too high, but that is the first substantial drop we have had.

We don't pay men and women differently for the same job but, like a lot of organisations, we are under-represented at the top of the organisation. Actually, not in my team—I have six executive directors: three women and three men—but at director level, which is a big group of senior people in charge of audits, both financial audit and value-for-money audit, we needed to substantially increase the proportion of women in that grade. It has gone up by 10% in the last two years, as we have had retirements and promotions and external appointments.

The reason why that has gone down by nearly 2% in one year is progress on promotions of women to senior roles.

**Q59 Chair:** Do you work towards some form of internal target?



**Gareth Davies:** By 2025 we want that down to 4%. In 2027 or 2028, we are targeting for it to be eliminated. That is our plan. Of course, we appoint and promote completely on merit, but it is amazing what challenging shortlists can do to the behaviour in an organisation. We have seen really strong shortlists with diverse candidates coming through, completely reliably now. I don't have to say, "I am not prepared to go ahead with that appointment until it is a more interesting shortlist." The quality of our appointments has been stunning. It shows what you can do if you focus on something. It has made a big difference quite quickly.

**Q60 Peter Grant:** I have two questions related to that. First, do you look at the people who are currently, say, in third-tier posts and ask yourself how many of them could step into a second-tier post today? Do you look at any gender or ethnic imbalance in that exercise?

Secondly, do you monitor, either formally or informally, whether there are women in your middle management posts, or people of ethnic minority backgrounds, who for some reason just do not apply for jobs that you know they would be capable of? Do you have a way of encouraging people to do that without stepping over the line into what might be seen as positive discrimination?

**Gareth Davies:** All of that, actually. We have had a really effective programme of engaging with people through the organisation to find out why they did and did not apply for things, and what happened when they did apply and weren't successful. This is difficult stuff. It was definitely the case, for example, that our ethnic minority colleagues were picking up subtle signals—nothing overt—that they were receiving different treatment in opportunities to work on interesting jobs, and some of those more indirect things. We have worked really hard on understanding that. We have a diversity mentoring scheme that has connected senior people at director level and above with people from different backgrounds in other parts of the organisation.

Understanding and awareness of all this has been really improved quickly. That has given people confidence to apply for jobs that I do not think they would have applied for before, and some of them—not all of them, obviously—have been successful, which has made a big shift. Our proportion of managers from ethnic minorities, for example, which is a really key grade for coming through to even more senior jobs in future, was 10% in March 2020—so 10% of our managers were from an ethnic minority in March 2020. The current position, from October 2021, is 16%. That is a big step in a shortish time.

**Q61 Peter Grant:** How many people is that? How many manager posts do you have all together?

**Gareth Davies:** About 160—in that sort of order.

**Daniel Lambauer:** Something like that, yes.

**Dame Fiona Reynolds:** Many organisations that I have been involved in have all said they want to promote diversity and inclusion. Every





organisation in the country is not only required to do that, but wants to do that. This is the first time I have worked with an organisation that is really, really making progress. You feel it and you see it in the organisation if you walk around. I met some of our trainees, both at graduate and entry level, and some of the prospective interns, who were in their last year at school, and they were an incredibly diverse group of people. They were massively enthusiastic not only about the thought of working for the NAO, but about the culture that they feel, the welcome, and the genuine sense that it is a serious organisation.

I have been enormously impressed. The board is quite challenging on this; we very much want to see progress moving even faster. But I can see and feel a tangible difference in the NAO. It is a very ambitious programme, but it really does matter. We serve the whole country, through Parliament, and reflecting the whole country in a precise and deliverable way makes a big difference.

- Q62 **Dame Meg Hillier:** We have talked about gender and a bit about ethnicity, but in your own staff survey, a third of staff—or 35%—said that they would not disclose their educational background. If you knew that data, it might be a bit of an indicator on social mobility. Could you talk through what you are doing with your cohort of existing staff, and with the interns and new trainees who Fiona mentioned, to explain whether there is a difference between the people coming in at the lower end and how you are measuring social mobility in the middle to upper ranks?

**Gareth Davies:** That is another important area. We have an active network in the organisation that is helping us with it. Our overall figures on this are pretty good. Our measures, like most people's, are crude at the moment—we are trying to make them more effective. We measure, for example, people who come from non-selective schools; people who come from a background where neither parent went to university; and people who had free school meals—so increasing measures of social mobility, if you like. Those are pretty rough and ready indicators.

- Q63 **Dame Meg Hillier:** Do they share that information readily? It is quite personal information, isn't it?

**Gareth Davies:** As you say, some of them do not—it tends to be roughly even—and for opposite reasons. People might think that it will count against them if they are regarded as being from a less-advantaged background, while others might think that declaring that they went to a top public school might count against them in some way—of course, both are wrong. We are trying to get more confidence that we are not using this for some kind of crude measure; we just want to understand whether opportunity is making itself available to people with talent and whether we are missing out on talented people for no good reason.

We do compare really well to the civil service on this. On the kind of measures I have listed, we are ahead at senior levels, for example, and unlike most organisations—

- Q64 **Dame Meg Hillier:** When you say senior, how senior?



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**Gareth Davies:** All the way to the top. Unlike most organisations, the proportion of employees from non-selective schools does not decrease as you go up the hierarchy. In fact, the management team has a higher proportion of people from non-selective schools than the organisation as a whole. It is a crude measure, but on the measures available we are pretty good on this.

Fiona's example of our intern scheme is a good one. We focus that scheme on students who come from schools that have not traditionally sent people to jobs such as the NAO, and once we have their interest we bring them in for six weeks in the summer. If they do well with us, we give them an opportunity to apply for our graduate scheme with a shortcut to the assessment centre. Last summer, all 12 students on the scheme decided to apply and all 12 got a job offer. Ten of them subsequently joined us, because two others had changes of plans in between, but that is a really good return on an intern scheme and has made a direct contribution to a more diverse pool of trainees—really talented people who would have just never heard of the NAO, let alone applied to work here. It is a good scheme.

**Q65 Dame Meg Hillier:** I have a couple of questions, then. What difference is it making to the quality of your audit work to have a wider pool of people contributing, and what are you doing on people with disabilities? How is that going?

**Gareth Davies:** This will take some time to have its full impact on our quality, because we need those people to get qualified, to be influencing our study approach and to be pointing out where we are missing important aspects of value for money. One of the themes of our work on value for money has been, "What are we missing?", and it is important in the context of a Government with a levelling-up agenda and so on. Subconsciously, do our reports reflect the concerns of a small part of the population, and how do we eliminate that from our methodology and try to look at the real impact of public spending on different parts of the country? That is one way; I could not claim that that is already happening, but it is a long-term advantage if we have people with different experience to inform that. Sorry, Meg, your second question was—?

**Dame Meg Hillier:** On disabilities.

**Gareth Davies:** Yes. The other bit of information we will publish for the first time at the end of this year will be our disability pay gap, which is zero. If you take all our disabled staff, their pay rates are the same as for non-disabled staff. That does not mean we do not have issues there, mainly with accessibility—not just the building, because obviously we have dealt with that, but jobs that require travel and other things that are more difficult for some people. Interestingly, the pandemic was really good for a lot of our disabled staff, because it put everybody on the same footing, and that is one of the areas where we are challenging ourselves not to just slip back into old behaviours that reinforce some of the previous barriers there.



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**Q66 Dame Meg Hillier:** My final question is about all those interns. Are they all from London, or do they get accommodation?

**Gareth Davies:** No, there is a big chunk from Newcastle.

**Chair:** Of course.

**Q67 Dame Meg Hillier:** Let me put it this way: if you are a teenager in Stoke and you want to come and work at the NAO for six weeks over the summer—

**Chair:** Move to Newcastle.

**Dame Meg Hillier:** Do you have to move to Newcastle? Who pays for the living costs? Or Glenrothes, indeed?

**Gareth Davies:** I am not sure about the living costs. I don't think we pay for living costs—unless you know better, Daniel?

**Q68 Dame Meg Hillier:** But they are paid enough to pay for accommodation?

**Daniel Lambauer:** We will have to come back to this, but it was an active discussion that we had. I chair the social mobility network, and they have done some tremendous work trying to raise the profile of this work. I remember vividly a discussion about how expensive it is even to come and interview. We will come back to the details with you afterwards if you want, but we are definitely actively looking at that. I will just point out, because it is close to my heart, that one of the big things on social mobility was sharing stories and what it means to grow up in a less advantageous household. That is quite vulnerable, and we had four or five amazing sessions with colleagues internally who opened up and said, "This is what it means to me." I was very proud of those colleagues, because it is hard, but it also means that others understand what it means to audit and why our work is so important and means something for the constituents you represent.

**Chair:** I am going to ask Nick Brown to ask our penultimate question in a moment, but on this topic, we will first have Jack Brereton and then Peter Grant.

**Dame Meg Hillier:** Bids for interns from around the country.

**Q69 Jack Brereton:** There is a wider issue, as you touched on, around value for money and how it actually relates to the country as a whole. If you are trying to demonstrate value for money in Stoke-on-Trent or in other areas of the midlands or the north, it is often so much harder when trying to secure a project or an investment. Obviously, we have had changes to the Treasury Green Book to try to improve that situation, but what more are you doing to look at this issue, to ensure that we actually see that levelling-up agenda delivered?

**Gareth Davies:** For a piece of work we are working on at the moment on local growth strategies, including the levelling-up fund, the towns fund and others, we are asking how the learning from the normal questions we would ask—what has been learned from a previous scheme, and what



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worked and what did not—has been applied to what is being done now, such as by asking how they are setting up monitoring of arrangements to understand the local impact and whether they are delivering the anticipated benefits. That is applying standard VFM methodology for schemes that are explicitly targeted at local growth. I am sure that will help inform views on whether current policies are adequate and are applying learning from before.

Having had to develop the covid cost tracker very quickly, we are also interested in whether there are other ways we can visualise some of this data so that it is more accessible to more people, rather than just being rows in a spending budget. We have a team of talented people who are good at graphics and mapping ways of showing spending data, so we are exploring some of that. There are two ways in which we are getting at some of those issues now. Our strategic focus on sharing knowledge will kick in on this too. Understanding where some Departments have developed better methodologies than others and sharing that across Government will be part of our plan.

**Q70 Jack Brereton:** Have you looked at potential alternative methodologies that could be used and other factors that could be brought into those assessments?

**Gareth Davies:** No, not in the sense of having an alternative to the Treasury's current way of doing things. Policy is not for us; that is for Government. Our job is to challenge delivery against those policies and the value for money of that delivery.

**Q71 Jack Brereton:** You can challenge whether that policy is necessarily fitting with where it needs to be.

**Gareth Davies:** Yes. "Is it delivering what it was stated to deliver?" That is a valid question for us, and I think that is where we are going to be on this question.

**Q72 Jack Brereton:** And maybe make some recommendations about some alternatives.

**Gareth Davies:** Yes.

**Dame Fiona Reynolds:** I must say that I think levelling up will be one of those challenges that has many of the characteristics that we talked about earlier—cross-departmental, long-term—and where the methodologies are not well established. I would be very surprised if we did not come back to this. On almost every aspect of public policy, I suspect a question about levelling up will be asked about it.

**Q73 Peter Grant:** I know it was only a fairly minor comment that you made, Mr Davies, but it may be a timely reminder that the fact that somebody tells you they got free school meals might just tell you that they went to school in Scotland, where everybody gets free school meals at some point.

On a possibly more substantive note, if the Government's grand statements come to fruition, we may see a massive decentralisation of



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civil service departments, with possibly 70% to 80% of the civil service based not only outside of London but a substantial distance from London. Could you envisage a time when the National Audit Office operates out of maybe 10 or 15 different offices, rather than essentially being based in London but with a significant operation, although very much still a minority, based in Newcastle? In looking at that possibility, how much weight would attach to the fact that simply doing that would enormously increase the number of young people who might find it possible to come and work for you as an intern without having to travel hundreds of miles from home?

**Gareth Davies:** It is obviously a really big factor in that. I am a bit conscious about having lots of small offices because there is something about the concentration of a critical mass of experts bouncing ideas off each other and so on. However, as we have discussed, the idea of offices itself is being challenged at the moment. What we will crucially be doing is keeping our minds open about what is working well for other organisations, and whether we are somehow getting left behind because we have an old model.

One thing we will have to be very aware of is that the very unusual economic circumstances of our London office make it extremely attractive to stay there, because we have more than 100 years left on a lease with, essentially, a peppercorn rent, and any replacement for that is going to be more expensive, wherever it is. The economics always drive us to say, "How can we use this office more effectively?" rather than, "Can we go somewhere else?", but as auditors, we are also very aware that if we start letting out 90% of our building and occupying 10%, it essentially becomes an investment asset, and your questions earlier on about the financial impact of valuations and so on will truly scupper our budget.

**Chair:** It sounds like the Pan Am building in New York, where they had the word "Pan Am", and I think they had one floor before they finally collapsed.

**Gareth Davies:** The other thing is that that building is like a character in the organisation. It has a real personality, which has its pros and cons, but it is part of the richness of the NAO's culture. There are lots of factors that will hold us back from being radical in the way you are explaining, so we will have to be very clear-eyed about this, and if we are missing out on really substantial benefits of the kind that you mentioned, we are going to have to be more creative and think about other alternatives. At the moment, though, it is not in our plans: it is about making more efficient use of the site we have. We can make it net zero, for example, within the next few years. When we move in Newcastle, we will make sure that that building can be net zero as well, so there are lots of exciting things going on with those offices, but we must stay in touch with what other people are developing if that works better.

Q74 **Mr Nicholas Brown:** I can remember that under Sir Edward's chairmanship, a few years ago, you and I and other Members who were here then gave this issue a very good going over with the then



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Comptroller and Auditor General, and he set out a programme for doing more. I am really pleased to hear what you have described to us, and particularly what Dame Fiona has said about momentum and continuing progress, particularly in raising what Meg has said about social origins, not just gender disparities. I think it is really encouraging, and maybe we helped prompt it, Chair.

**Chair:** I am also particularly pleased—I remember hearing this too, and Mr Lambauer was one of the people in charge of the refurbishment, along with Mr White, who has now moved on—that it was not a PFI project. I think we were all very glad about that.

**Q75 Mr Nicholas Brown:** Certainly in retrospect. Let me bring us to the penultimate question, which is about staff engagement and so nicely follows on. We are told that the participation rate in the survey is 7.3 out of 10. Is that satisfactory—is it what you would expect? Could it be improved on, and what do you think the factors are behind this score? Could I just add, for completeness really, what are the areas of greatest concern that you think are highlighted by the staff response to yourselves? We are told that one of them relates to workload. What would be your response to that?

**Gareth Davies:** First, I want to explain that, as a result of the pandemic experience, we have changed our approach to the staff survey, because we found ourselves doing a weekly temperature check when people were suddenly working remotely. It gave us fantastically useful information about what they needed to be effective in their jobs and where the pressure points were emerging, so we came out of that thinking, “We can’t go back to an annual staff survey.”

We have signed up to a new provider, and we now do a monthly survey. We do not ask the same questions every month, but they have a good methodology for asking a different subset of questions monthly. Some people fill it in every month; others dip in and out. At the moment, our participation rate for that is 84%, which means that since we started doing this earlier this year, 84% of our staff have responded to at least one of those monthly surveys, and quite a few of them are responding every month. It means we get a good, developing picture over time, but we can also respond quickly to pressure points. That has been so helpful.

You are right that the highest scores are really high, around people feeling clear about their goals and what they are there to achieve in their job. There is real clarity about our strategy. The support they get from their immediate managers is very highly rated.

The lowest score is workload, which is not surprising. Coming out of what we have come out of, people have had to work incredibly hard and in very strange conditions, often with no peer support immediately around them and so on. So that has felt tough for a lot of people. If, added to that, you were home schooling or had caring responsibilities for people who were vulnerable in the pandemic, it was a pretty stressful time for people.





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We are not complacent about that. We don't think, "Well, at least we are working them hard, so that's a positive result." Some of this is a sign of genuine stress in the system, which is not going to be good for our quality in the longer term.

The other beauty of this new system is that the data is granular, so I can see the data across our six management groups, and within the groups you do it by individual teams. Every team is now using this data on a monthly basis to say, "Is there a problem emerging for us? Does this surprise us that we are saying this to each other? Is this something we need to tackle?" It means we can see the pressure points and, if it is about resources, we can do something about it.

This is a brilliant tool. I am not sure how we managed without it before. It allows us to home in. The other low score, which will be relevant next time, when we come to talk about pay, is reward. Not surprisingly, after a year of pay freeze and low increases before that, people are feeling hard done by in terms of reward. They are very grateful to have had a stable job through the pandemic, but they have worked really hard and seen inflationary pressures come through. I do not think it is a surprise that those two are our lowest scoring areas.

**Q76 Chair:** Thank you. You mentioned becoming carbon neutral earlier. We have recently seen the excitement of COP26—the enormous conference in Glasgow. Has the pandemic forced you to adjust your environmental targets? Are you still on track to becoming carbon neutral by 2029?

**Gareth Davies:** We had our best environmental year, when we didn't go anywhere or do anything outside our houses. Our use of paper plummeted. Actually, that is a sustainable saving. A lot of people couldn't imagine reviewing accounts without the paper copy in front of them. We gave them new, electronic tools to be able to mark up PDF documents on screen and jot down notes as they went through. A lot of people are not going back to printing things off just to do that. So there is a banked saving on use of paper.

We are on track for our 2029 target. We have chunked it up into the three groups of carbon impacts. Actually, strangely the biggest ones are the easiest to deal with. Our boiler system at Buckingham Palace Road is reaching the end of its life in a couple of years. We are going to replace that with carbon-neutral technology. The jury is out on exactly what that is at the moment, but we are very confident—we have got engineering advice—that that will be possible. We are going to move to a new building in Newcastle, so one of our criteria for that is that it is already ready for carbon neutrality.

The building side of it is the easy bit. The hard bit is business travel and the vexed question of how you calculate your carbon footprint as an organisation, if you have a mixture of working in the office and working at home. We have borrowed from the Environment Agency their staff carbon calculator. We have made it available to everybody to have a play with; that is all we have done so far. It allows you to say, "This my carbon



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footprint for a day that I work at home,” and obviously it includes heating in the winter. If that house would be unoccupied and you would be in the office otherwise, then that counts as a carbon contribution to the NAO’s business.

What has surprised a lot of us is that in the winter it is significantly worse for the environment to work at home than if your commuting involves, as mine does, a walk to a train station and a train into London. That is about a quarter of the carbon footprint of sitting at home with the heating on. You could drive yourself mad trying to make this perfect, but those are going to be important bits of data as we start to work that out. When we say we are going to be carbon neutral by 2029, what does that actually mean and how has it affected the way we work?

**Q77 Chair:** I cannot resist observing that if one stayed at home in a new, self-commissioned house, built to the highest environmental standards, then what you have just said might not be true. At the moment, I accept that probably is the case.

That concludes today’s evidence session. Thank you all very much for coming along. May I wish you a very happy St Andrew’s day, as celebrated in particular by Mr Grant, with his magnificent tie? The Commission will now deliberate in private. Thank you for coming.