Public Accounts Committee

Oral evidence: NAO 2015-16 Estimate, HC 972

Monday 02 February 2015

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Guto Bebb; Chris Heaton-Harris; Austin Mitchell.

Gabrielle Cohen, Executive Leader, National Audit Office, Laura Brackwell, Director, Sue Higgins, Director and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Amyas Morse, Comptroller and Auditor General, and Michael Whitehouse, Chief Operating Officer, National Audit Office, gave evidence.

Q1 Chair: Amyas, we are going to keep this brief. Because I have so much interaction with you, I find it rather difficult to know where to ask questions. Where shall I start? You are not achieving the same level of savings in back-office functions that we are demanding across the board in other bits of Government. I think 25% is the figure that you are coming up with at the end of this spending review period, whereas most Government Departments are going at 30%, and some are even having to bite a little harder. How, in the circumstances that we find ourselves in, can we justify you being let off lightly?

Michael Whitehouse: The actual figure is that we have reduced the total cost of the NAO by 25% in real terms on the same basis as Government Departments. Our back office has reduced by a greater—

Chair: I was putting you as a back-office function. I think you are a back-office function.

Sir Amyas Morse: What is a back-office function?

Chair: Well, it is not a direct service to the public.

Richard Brown: Do you want to consider rephrasing that?

Sir Amyas Morse: We have reduced our back offices—I am not sure I understand the question.

Mr Bacon: So the Treasury is a back office as well. *[Interruption.]*

Sir Amyas Morse: Have you finished laughing? I am glad to give you some fun, and I will try to keep that up in future. Yes is the answer; we have been tough enough. I am not going to inflict the whole history of our cost efficiencies on you, but they have always been volunteered ahead of the curve and not on demand. What we can do is limited by our nature. Any generalised label does not tell you very much. Because we do audits, and we have to do them to a certain standard, I cannot just arbitrarily take out resource. That is about 70% of what we do, and I cannot just arbitrarily re-plan it and say, "We will do it more cheaply this year." I have to actually find ways of extracting efficiencies from the organisation in order that it can work more cheaply. That is why we did a major reorganisation, and we have delivered the savings we said we would from it.

During this year that we are talking about now, we are going through a process of putting ourselves in a position to offer up further structural savings next year. I fully expect to be asked to do that, but I just cannot do it every year, because it is not the nature of what we do. You can see at the rate that we have achieved efficiencies, we have progressed in line with what you could reasonably expect of many Government Departments. A lot of those Departments—may I say?—actually function by passing out money, to a large extent. When you are talking about whatever back office, it is quite an easy thing to reduce the amount of grant I am giving, for example, to a local authority and say that I have reduced my expenditure. When we take our expenditure down, we are talking about actually reducing our capacity.

All I would say is that this year we will be delivering an underlying efficiency at 3%. I am expecting to achieve more structural savings next year. We need a technology change in order to be able to do that. I really cannot do it without that, without compromising my ability to act as the auditor to central Government. What we are saying is consistent with what we have said every year. I can achieve efficiencies, but I cannot achieve them by just hacking bits off the organisation. I have to have time to plan, to restructure it and to deliver those efficiencies.

Q2 Chair: Where will your efficiencies come in the following year?

Sir Amyas Morse: They will come from streamlining both the back office and the way we do our professional work with the aid of implementing technology. So we have a plan. We are discussing this with our new board. This is absolutely clear: it is only one year away. I am expecting to be delivering further structural efficiencies in a year's time.

Q3 Mr Bacon: Can I ask a question about staff? I think your establishment has 812—is that right?

Michael Whitehouse: Next year, it will be 825 because we will take on some additional staff from the Audit Commission.

Q4 Mr Bacon: But you are short-staffed at the moment.

Michael Whitehouse: Yes. We are about 30 people below complement.

Q5 Mr Bacon: Only 30? I had a higher number.

Michael Whitehouse: We did have a higher number, but over the last few months we have been successful in recruiting more people. But we are anticipating that the nature of the market will mean that it will be quite difficult—

Q6 Mr Bacon: Yes. The numbers I heard were 740 and 812. Was the gap that big at one point?

Michael Whitehouse: I think the largest we got was about 45 or 50.

Q7 Mr Bacon: Okay. For every moment during which you do not have enough staff, those you do have are having to run and work harder to get the same amount of work done, but you are also not paying salaries to people that you have not got, which is an ongoing saving—albeit, a one-off—which could amount to a few million pounds tucked away.

Sir Amyas Morse: The only thing wrong with that scenario is that we do not do the same amount of work. The fact that we did not have the number of staff we planned for has meant that we have not done the number of investigations that we had planned to do in this year now ending. So it has held us back. It is not a question of us just magically stretching people. There is a distinct limit because they are stretched quite hard already.

You will remember something else about this: because our audits season is cyclical and we have a peak, as you well know, your ability to redeploy staff it somewhat limited. We do have to allow for the fact that Treasury likes to have the accounts lodged before the House rises in the summer and everybody has the same year end. Therefore, we are working hard to get more efficiency out of our staff, but there is some limitation because of all that.

Q8 Mr Bacon: Yes. I accept what you say about having been held back and about some work not being done, but it is true that there will have been some financial saving that you will have in your piggy bank because you did not spend it.

Michael Whitehouse: But we surrender that money every year. We would not retain it. We cannot keep it and reinvest it one year to the next, so—

Q9 Chair: Do they surrender it?

Richard Brown: There will be an assumption about vacancies built into the financial planning—

Sir Amyas Morse: Hang on, let me be clear what that means. If we undershoot on our spend, we do not spend it and therefore that spare capacity in the budget goes back. We have a very firm policy. We do not think, "I wonder how we can spend the money." Instead, we release that money back. That is a very firm principled policy that we have.

Chair: It would be good to get that across Government.

Q10 Mr Bacon: It almost sounded like you were about to say, "I know Government Departments do not think in the same way," but I will not put words into your mouth.

Sir Amyas Morse: Thank you for your considering my discretion.

Q11 Chair: I understand it is in your plans next year to give support to more Committees across the House, which we welcome, yet you are cutting the resource for value for money studies, which is the primary resource that that will come out of. You just said in answer to Richard Bacon that fewer people would mean fewer studies, so how are you squaring that circle?

Sir Amyas Morse: Because we are getting progressively more efficient in how we do the work. If you looked at how much it cost us to do a study in the last few years, let us say, the cost per study has come progressively down. That is because we find ways of doing studies in a more efficient fashion.

Q12 Chair: Take us through that. I do not understand that, because it is people doing the work.

Sir Amyas Morse: I will give you one example. Nowadays and for some years, we have had a word limit on an NAO Report of 10,000 words.

Q13 Chair: I have noticed that slipping a bit—more than a bit.

Sir Amyas Morse: Thank you, but when I first arrived there were Reports that were more than twice that size. We have made them smaller. Just by dint of cutting down on the scale, having a more direct and stronger logic and more use of knowledge—in other words, where we have done other comparable Reports, we try to ensure that we learn from them—there are ways to deliver a good Report more efficiently. We believe that the next stage in that will be by using more technology. That is quite a clear and deliberate plan that we have been pursuing for some time.

Similarly, we have delivered efficiencies in audit, but we did so by replanning how we go about our audits and doing them in a way that is less intensive for senior staff. That has delivered dividends in reducing our costs, but we cannot do that on the fly. There is a limit to the rate at which we can do that, because we have to comply with international auditing standards.

Q14 Mr Bacon: On that point about technology, you say in your estimate that the next stage in your strategic development is to become a data-led IT-enabled organisation. Presumably, there is a cost to that. Can you say roughly how much you expect to spend in that area and what benefits you see it delivering?

Michael Whitehouse: We have a capital budget, because a lot of this expenditure will be capital investment in IT. We normally have a budget of £1.5 million capital expenditure a year. We are increasing that to £2 million over the next financial year, and probably will continue at that level. We have an IT strategy. I do not have the exact costs to mind.

Q15 Mr Bacon: No, okay. In any case, you are talking about very small sums of money compared with most Government Departments. In terms of the benefit, what is it that you buy with this extra budget and how does it deliver benefit?

Sir Amyas Morse: You buy the ability to share information, to enter data into the system once, and to work therefore more efficiently. You buy the ability to share and transport analytic models that you have used in one place into another, so you buy the ability to work differently. These are not enormously different stories from what you will have heard on a much greater scale from Government Departments. Just as importantly as buying technologies, you have to invest in training people to use the technology really well. Without that, you might as well not buy the technology. So this is a significant area.

We have been evolving in terms of our audit work. We have been building up a computer audit team. We want to transition to something over the next few years where people regard computer audit as synonymous with audit, so that that is just how you do audit. So we will be going through that transition as well. Again, we hope that that will deliver efficiencies.

Q16 Chris Heaton-Harris: On this point, because a 25% increase in budget—well, I guess it is a third—is quite a lot, even though you have a plan for it. Why are you going to keep this increase going forward? Are you leasing your equipment? Are you paying for a training package? What is contained within it?

Sir Amyas Morse: We are clear that in order to do this, we need to buy new technology. We are going through a process at the moment to decide exactly what technology it will be. As we go forward, we will buy that technology and implement it. It is buying systems and some hardware, but mostly systems. So it is buying kit, buying systems and training people to use them.

Q17 Chris Heaton-Harris: My question is really about the projection going forward. I can understand the initial outlay and the increase for that. Why would the intention be to maintain the capital level at £2 million?

Michael Whitehouse: I am sorry—I should have been clearer about this. We normally have a capital budget of £1.5 million. We are increasing it to £2 million for next year, which accounts for the additional investment in IT. I cannot give you the precise figure. Going forward, we have a planned maintenance programme. Included in that capital budget will also be an ongoing programme to maintain and improve our elevators in our headquarters building, which are about 10 years old, and we are about to start a new refurbishment programme.

Q18 Mr Bacon: Didn't they get replaced as part of the—

Michael Whitehouse: No, actually, they didn't.

Q19 Mr Bacon: That was a bit of value engineering, was it—"They're all right, so we'll leave them"?

Michael Whitehouse: I wish they had been replaced.

Q20 Chair: Can I ask about the tough performance targets for your staff that you told us about last year?

Sir Amyas Morse: You are familiar with the fact that we do financial measurement of impact. At the NAO-wide level, we are now following up on the implementation of our recommendations, which I think is a really good measure of effective operation. We want to follow through how far our recommendations in our Reports carry into the Committee's recommendations, and then how far they are accepted by Parliament and implemented by the Departments. We think that is a strong unifying measure. That is the first in a set of broader measures. I have always been slightly embarrassed by having just this financial impact measure, so we are starting to move to measures which show how influential our work is on the behaviour of Departments. This is the first step in that—that is because it has a very good evidence flow—but we are going to go more widely. We notice there is quite a high correlation between Reports and work on particular subjects, and developments in Departments' approach in those areas. If you did a distribution of that, you would find it correlates quite well. We are exploring different ways of charting that.

To come back to staff members, what we have done is go for a very much franker—very direct—approach to performance appraisal, because it is in the interests of staff to have very clear appraisal. Therefore, we have gone into a system where we hold ourselves accountable for being very clear with staff about what is good and not good about their performance. That has much more impact and actually helps to drive improved performance. It is right that one does that, rather than having a rather bland form of performance appraisal. We have moved forward into something where we are much more direct in our performance appraisal.

Q21 Chair: And that leads to action, does it?

Sir Amyas Morse: Yes, it does.

Q22 Mr Bacon: May I ask you about local government? Since the abolition of the Audit Commission, you have taken on some limited responsibilities and some staff, but that is limited too. We are all familiar with this from the Local Audit and Accountability Act 2014, because we sat on the scrutiny Committee. Thematic studies are coming in due course. Can you speak to that? Can you tell us about the people you have taken on, where this is going, when we are going to see some product out of it and where you see things going in future?

Sir Amyas Morse: Certainly. Before I talk about thematic studies, it is important to think about the quite extensive responsibilities we are taking on—rather more than one might think. We are taking on 11 people from the Audit Commission. What they are doing, apart from a code of audit, is providing regular guidance to auditors. That is more detailed; it's much more problem-specific, if I can put it like that. The code is fairly high level—hopefully, not changing very much. The guidance is much more detailed and needs a lot more work. That is backed up, first, by an online information system, so that people can pick up the details. Secondly, there is a programme of consultation and feedback, spread out across local government to make sure that we have consulted thoroughly when we give guidance or consider changes in the code. All that goes with taking responsibility for the code—rather more than one might automatically think to be the case.

Q23 Mr Bacon: Presumably, where particular issues are identified in a local government audit that might of generic application, that knowledge is spread right across the sector?

Sir Amyas Morse: That's the idea.

Chair: I was actually going to ask—

Mr Bacon: Sorry. Could I just get an answer?

Sir Amyas Morse: That is in addition to doing cross-cutting Reports. From memory, I think we are expecting to do about eight. Is that right?

Michael Whitehouse: We will do six local government and two additional on health, so you will get eight in total.

Q24 Chair: Can I just ask about the audit? The Audit Commission had a rich data source. Losing that would be really disastrous for our ability to make comparisons across local government when we come to do a thematic Report. I do not know how much you are hanging on to that in your guidance.

Michael Whitehouse: There are people transferring over from the Audit Commission who had direct responsibility for maintaining that database in the Audit Commission.

Q25 Chair: In the guidance?

Michael Whitehouse: And to do the guidance as well. We will get that skill transferred across.

Sir Amyas Morse: I would just like to say that we are very impressed with the people from the Audit Commission who have come to join us. We are very happy to have them on board. I would have been very happy to have them on board under any terms at all.

Q26 Mr Bacon: I have just one more question on this point. I almost asked this before, but would it be fair to characterise these people who have come in and the work that they are doing—not only the issuing of the code, but the consultative work you are talking about—as to some extent a mini-management consultancy unit that people out there in the field doing audits can turn to looking for advice? Or is that to overstate it?

Sir Amyas Morse: I think that is taking it a little bit too far, honestly. We really can't become, and we are not, a management consultancy. What we are trying to do is make sure that the guidance we give is practical and sensible. There is some interaction on it, but we are not so far a management consultancy. That way, we would be getting into bigger and bigger involvement, and we really cannot do that.

Michael Whitehouse: To support what Amyas said, when you do a cross-local-government study, you identify systemic issues. Where those systemic issues are relevant to the local auditor, that will be incorporated into the guidance provided to them.

Q27 Chair: Are you doing a lot of work for the Select Committee on Communities and Local Government? Is that one of the Committees you intend to work more closely with?

Michael Whitehouse: We would work with all Select Committees.

Q28 Chair: But not particularly in the wake of the abolition of the Audit Commission? You are not looking at changing your—

Michael Whitehouse: No.

Q29 Austin Mitchell: You have emphasised clearly your guidance work in local government auditing. When you do work that is directly comparable with work that the Audit Commission was doing before you took over, are you doing it more cheaply or more expensively?

Sir Amyas Morse: It depends. Directly comparable work is on national studies, and I think it is probably pretty similar. We are using very similar professional staff, paid at a pretty similar level, doing work in a similar professional way, so I am not going to say it is vastly different, but remember that it is not such a large part of what we do. I know you know this, but of all the local government audits, the Audit Commission themselves carried out a high proportion, over half. We don't do any of that. It is a somewhat different beast, I think.

Q30 Austin Mitchell: Are you commissioning any of the four big audit houses to do any of the work of the National Audit Office?

Sir Amyas Morse: No.

Q31 Austin Mitchell: So you don't pay any fees to them at all?

Sir Amyas Morse: Well, we always have done some work with them, but actually, over the last year since I have been involved with the NAO, it has come down steadily.

Chair: Thank you. We look forward to seeing you next week.