# Public Accounts Committee

## Oral evidence: National Audit Office 2016–17 estimate, HC 878

## Wednesday 2 March 2016

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Members present: Meg Hillier (Chair), Mr Richard Bacon, Deidre Brock, Chris Evans, Caroline Flint, Kevin Foster, Mr Stewart Jackson, Nigel Mills, David Mowat, Stephen Phillips, Karin Smyth, Mrs Anne-Marie Trevelyan

Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Joe Perkins, Director, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

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

**Q1 Chair:** Today we have two sessions. Our first is the National Audit Office estimate for 2016-17. We have a standing witness of ours, Sir Amyas Morse, who attends all our Committee meetings, but this time he will be quizzed directly about the spending, budget and future plans of the NAO. We also have Michael Whitehouse, who is the NAO's chief operating officer.

I want to kick off, Sir Amyas, by noting that you are of course no longer going to be auditing the United Nations. That means you are losing £3 million, and I just want to be clear: is that £3 million of income? How exactly was that funded, and what is the actual gap in your budget?

***Sir Amyas Morse:*** Well, it is £3 million of income, but we charge on a full absorption cost basis so in time our costs should reduce to match that loss of income. There is a significant timing difference about this, though. We will receive our last payment from the UN in April and we will continue work on the UN audit, putting it to bed and handing it over to those who are succeeding us on the court of audit of the UN up until almost the turn of the calendar year—so through most of the fiscal year. We will be planning which members of that team come back and become integrated into the team here, or whatever—we are certainly going to have to shrink the numbers. For that reason, while I believe that over time it will be, so to speak, a wash, right now it is not a wash. Right now we have lost the income and still have the cost associated with the income in the year's estimates that I am putting forward to you at the moment, but I think that will unwind itself over time, probably during the next year.

**Q2 Chair:** How many staff from the NAO are based in and working on the UN programme?

***Michael Whitehouse:*** At any one time, we have a director and a manager based in New York;the remainder of the team fly in and out as needed. I cannot remember the exact number. In the year, I would say about 20 to 25 people—

***Sir Amyas Morse:*** I think it is about 26 full-time people.

**Q3 Chair:** But it is a full cost recovery payment that you are getting from the United Nations?

***Michael Whitehouse:*** Yes.

**Q4 Chair:** So there is not a profit made?

***Michael Whitehouse:*** No.

**Q5 Chair:** Out of interest, who is taking over from the National Audit Office in auditing the UN?

***Sir Amyas Morse:*** Well, Germany is coming on to the court of audit.

**Q6 Chair:** So they come on and you go off?

***Sir Amyas Morse:*** Yes, that's right. That is because there are broadly representatives of different world zones, so there is a European representative an Asian, an African and an American representative. It works on a rotational basis.

**Q7 Chair:** Apart from that, what are the particular changes in your work programme? I want to come on to the issues around local government and new audit arrangements later—I am not asking about that particularly. What other issues are you going to be looking at differently, taking on or dropping over the next year?

***Sir Amyas Morse:*** The first thing to say is that we are taking on more work. It looks as if we are going to be appointed to the audit of UK Asset Resolution. We will not necessarily start auditing immediately, but we will have to start preparation work on that immediately. You know that we are newly appointed to Network Rail, and therefore we have substantial costs there. I notice that we remain visible—we were in the Green Paper—on the BBC audit, and I don't think it is impossible that we might be appointed there. If we were in the White Paper, I would take that as a signal that I needed to start doing some preparatory work, and we have put nothing in the budget for that so far.

**Q8 Stephen Phillips:** On the BBC point, we had a strong hint, as you will have noticed, on Monday from the permanent secretary at the Treasury that there is going to be more parliamentary oversight, and naturally the NAO appointment as the auditor of the BBC would go hand in hand with that, so that seems to be very likely. How significant are the costs associated with becoming responsible for auditing the BBC's work?

***Sir Amyas Morse:*** Quite significant. It is a large body and it has some foreign subsidiaries that we would need to subcontract—that is the arrangement at the moment—so there would be some costs associated with that. It will be quite a significant amount of costs when we are in—I am not going to try to estimate them now.

**Q9 Stephen Phillips:** But are we talking about hundreds of thousands or millions of pounds, Sir Amyas?

***Sir Amyas Morse:*** I think we are certainly talking about hundreds of thousands. In addition to that, there would be what I would call build-up costs. In other words, there is a lot of knowledge and an approach to be devised. This is not something you are going to be suddenly surprised by: you will see a build-up cost being incurred in the next fiscal year, and by then you will have a much clearer estimate—and we will too—of what it would cost us to do the work.

**Q10 Stephen Phillips:** There is no provision, presumably, in the £63.4 million you are asking for to do that.

***Sir Amyas Morse:*** No, none.

**Q11 Stephen Phillips:** Is there a mechanism for that sum to be increased so that it does not detract from the remainder of your work if, as seems likely if not inevitable, the BBC is made properly accountable to Parliament through the NAO?

***Sir Amyas Morse:*** Yes, we can apply to you for an interim revisal.

**Q12 Stephen Phillips:** And we would have then to look at this again, would we?

***Sir Amyas Morse:*** Well, TPAC would have to—

**Stephen Phillips:** Yes, TPAC would have to approve it, but we would look at it as well.

**Q13 Chair:** What about the Bank of England audit arrangements? What plans are there for funding that?

***Sir Amyas Morse:*** We will be doing value-for-money work at the Bank of England, and I am not sure that we have a separate sum for that.

***Michael Whitehouse:*** We took the assumption that we can do the value-for-money work for the Bank of England within our existing budget. That is an assumption; as always, we would look to see what the evidence told us when we had completed the work. If we had to come back to the Public Accounts Commission, we would do so.

**Q14 Chair:** It just seems that there are a lot of variables here—extra responsibilities—and we haven't even got on to the new audit arrangements that have obviously already, to a degree, embedded.

***Sir Amyas Morse:*** But that is the way we tend to always do this. The choice would be to go in with an excessively large estimate, and these things have a habit of sticking. If you remember what we did when we took over the local government responsibility, we really only estimated what we were quite sure we would need, and that was a very conservative estimate. I remember being challenged at the time about why we were not asking for more and I said, "Well, I believe we can do it for this, and if we need more, we'll ask you." That is our preferred way of doing it, rather than the other way round, and I think it is more prudent in terms of managing public money to do it that way.

**Q15 Chair:** I can see dangers in both ways, but I hear what you say.

***Sir Amyas Morse:*** Well, at least we are consistent. This is the way we normally do it, so we are not chopping and changing between one thing and another. We will normally be doing it in this rather conservative way.

**Q16 Chair:** Okay. You mentioned the local government work—the change in audit arrangements during the last Parliament. Can you give us an idea of where you have been successful, and if you think there are still gaps as a result of that change of legislation and change of your responsibilities, where they are?

***Sir Amyas Morse:*** Where I think we have been successful and have had very positive responses from local government has been, first of all, in building up our dialogue with local government. We have a panel where we sit with the leadership of local government and talk about what our planned work is—

**Q17 Chair:** That is the Local Government Association.

***Sir Amyas Morse:*** That's right. We have very good discussions with them. What we have been able to do different from what was accessible, probably, to the Audit Commission is to stand on the bridge between local and central Government and provide some much more informed commentary on the effects of the interaction between the two. I think that has been a valuable contribution, which local government have found uniquely valuable compared with what they had before, perhaps. That takes nothing away from the Audit Commission; it's just in a different place. I think that has worked very well.

The studies we are doing that succeed what the Audit Commission used to describe as national studies—that is to say, cross-cutting studies across local authorities—have been well received also. You will remember that those have included financial sustainability of local authorities, which has been found to be particularly relevant, and the work we have done on the interaction between health and social care and how that impacts on local government budgets. You will remember that quite often we address a Report to this Committee, and at the same time we produce a Report off the same work base but addressed directly to local government, and we publish that separately. I am very happy with that part of our work. We are getting a good response from local government.

**Q18 Mr Bacon:** I wanted to ask you about the Local Audit and Accountability Act, which gives you the power to conduct these examinations into the economy, effectiveness and efficiency of local government if you doing so for what the Act calls "all relevant authorities, or…particular descriptions of relevant authorities". That is plainly by design to cause you to do thematic studies that relate to groups of local authorities, rather than do a deep dive into one local authority. Am I right in hoping that the definition gives you enough scope?

For example, if you wanted to do a thematic study into a particular problem facing local government that might not be universal but might be quite broadly found, plainly you would not do it into all relevant local authorities; it would be into a "particular description", according to the Act, of relevant authorities. Do you interpret that to mean that you have to find every single local authority that might fit or that you can, as it were, take a sampling approach by having a representative group that fits the requirements of the Act? You get the point that I am trying to make.

***Sir Amyas Morse:*** Yes. I think the study we did on local waste disposal installations, in which you had an interest, precisely fits that description. We are able look at subsets of authorities that have particular characteristics. That is how we are interpreting the charge. We interpret it quite fluidly so as to look at authorities with shared characteristics when it is relevant to look at them as a group. Essentially, the point is that you have findings that are meaningful to the group, not just to individual authorities.

**Q19 Mr Bacon:** Imagine that you had a case involving a problem of overpayments or duplicate payments by local authorities that cumulatively might run into many billions of pounds. Would you be able to do a study that looked at that issue by taking a group of local authorities representative of the rest where that problem might occur in order to draw out thematic lessons that would be applicable to other authorities that you had not specifically looked at?

***Sir Amyas Morse:*** I would add a test to what you have suggested: I would have to be satisfied that there was some evidence that it was, in fact, occurring in more than one authority; otherwise that would simply be a stalking horse. I would have to be quite satisfied that this was genuinely a generic problem being caused by some condition suffered or present in a number of local authorities. That is really the test, to be clear about the logic.

**Q20 Mr Bacon:** So as long as you satisfy that test, you might be able to—

***Sir Amyas Morse:*** Then it is perfectly possible to look at it.

**Q21 Chair:** But under the new audit arrangements there is potentially a gap, because the NAO did not take over all the responsibilities of the Audit Commission. Have you done or are you planning to do any assessment of that? You are doing the thematic reviews, but if there is a problem in a particular authority, we are relying on the existing auditors to flag things up, which is sort of the way the Audit Commission worked, but there is a potential gap. Do you have any concerns about that and have you made any representations to Government or to anyone else about that?

***Sir Amyas Morse:*** I have not, if I properly understand the issue about which you are asking. Remember that I cannot produce the whole footprint that the Audit Commission had because it was itself the auditor of a large number of local authorities and it subcontracted a minority of local authorities' audits to the private sector with the same guidance that we now produce. We have been able to reproduce and to do a good job, I think, of setting the standards and providing the annual guidance—all that is all going well—but we do not have the same on-the-ground experience of auditing local authorities that the Audit Commission had. I am not sure it is necessary to replicate it, but in honesty I have to recognise we don't have that. On the other hand, rather to our benefit, we do not find ourselves trying to carry out any regulatory activities. I think it is probably fair to say that most of those type of activities were not desperately popular with many local authorities. So it is different—there are things we are definitely doing differently. Whether you call them gaps or not is a matter of judgment.

I am not seeing something badly wrong with the system at the moment. I do not regard it as having some obvious hole. I would be much more worried if we found ourselves in a few years' time, as we move towards transitional funding arrangements, with less from the centre and more reliance on business rates. That is when I think the whole of the local authority funding model is going to be tested rather severely. At that point, it will be very important to make sure that we have adequate coverage and arrangements in place. My forward planning and any representations I make will be around that transition point. I think most of us would regard it as a rather crucial transition, but not for a couple of years or three years yet, I think.

**Q22 Chair:** Have you had any auditors for local authorities flag up concerns to you directly at the NAO?

***Sir Amyas Morse:*** We have had dialogue with them, I would put it that way. We have had dialogue with some local authority auditors about issues that we have been informed of to check that they were on inquiry. We have done that.

**Q23 Stephen Phillips:** Could we look at figure 2 on the estimates? I would like to go through some of these lines with you. Can I begin by asking you about establishment costs, which are proposed to reduce by £100,000 this year? You own the building in Buckingham Palace Road, don't you? What are the costs associated with that? How does the £9.5 million split between Newcastle and London?

***Michael Whitehouse:*** Newcastle is relatively small. We have a lease and we rent the property up there. I think the costs of running the Newcastle office are in the region of about £300,000 a year.

**Q24 Stephen Phillips:** So where does the other £9.2 million go?

***Michael Whitehouse:*** The £9.2 million is business rates for the business in London; it is the security costs that we have; we have a catering contract—it is the general running costs of the organisation. Then there will be things like—

**Q25 Stephen Phillips:** So the appalling coffee that we get when we come to Buckingham Palace Road. If I may say so, it is quite an expensive location. I know you own the building, but has the NAO given any consideration to whether relocation might provide a way of reducing its establishment costs, which are 20% of the staffing costs, so fairly significant?

***Michael Whitehouse:*** I think you may be aware that nearly five years ago the building was significantly refurbished. The Public Accounts Commission gave us the money to do that refurbishment. At that time, there was a lot of consideration about whether we needed to be in London.

**Chair:** I am sorry, you will need to be closer to the microphone.

***Michael Whitehouse:*** I'm sorry, I have a very quiet voice. Five years ago when the Public Accounts Commission approved a budget of more than that for the refurbishment of the National Audit Office organisation, there was quite a lot of consideration about whether or not we should be based in London or move somewhere else. At that point, the Public Accounts Commission concluded that we should stay in the current headquarters building. I would add, though—this is very much down to when Amyas arrived—we do now sublet a third of our floor space.

**Q26 Stephen Phillips:** You have anticipated the question I was going to ask.

***Michael Whitehouse:*** We get nearly £2 million-worth of income from that. We have reduced the floor space that our people occupy and we are well within civil service—

**Q27 Stephen Phillips:** I was going to say, how does your floor space requirement compare with the civil service standard in Whitehall?

***Michael Whitehouse:*** I have got the figure here, if you bear with me.

**Stephen Phillips:** Is it 7 square metres for the civil servants?

***Michael Whitehouse:*** If you give me a moment, I will find it.

**Stephen Phillips:** We will come back to that in a moment.

***Sir Amyas Morse:*** We are within that standard, and I would say that there are many civil service offices that are not. The other point I would make is that it is quite true that, in its refurbished form, we have quite good quality space and that is why we are able to sublet it. There are plenty of others who would like to sublet but who have rather unpleasant space and cannot sublet, so I don't think it follows.

Finally, as regards the service contract, there is nothing that says that because of the location we are in, the service contract would be cheaper. The only thing that I guess would be cheaper if we were in another location would be the rates.

**Q28 Stephen Phillips:** Yes. It is an expensive place to be in terms of rating as well.

***Sir Amyas Morse:*** Rates are the one differentiating factor I could put my finger on, actually.

***Michael Whitehouse:*** To answer your question specifically, the central Government target is 10 square metres by 2015. In 2015-16 we were at 8.6 square metres. Our figure has gone up a little bit because we have reduced our headcount, but we are continuing to look at opportunities—

**Q29 Stephen Phillips:** That feeds in nicely to the next line I want to ask about: staffing, which is obviously your largest item of expenditure. You are proposing to reduce the spend on staff by £2.5 million or 4% between last year's estimates and this year's estimates. That is the number, and I would like to hear from Sir Amyas that that is not going to impact the quality or indeed that quantity of the work. I have in mind that while it is for you to decide what you look at across central Government, there have been occasions on which members of this Committee have expressed interest in certain areas that do not always get looked at.

***Sir Amyas Morse:*** Let me take that point first, if I may. It is never the case that we do not look at an area because of resourcing—unless it was something where it would simply be a misuse of resource. It is never because of limitations of available resource.

**Q30 Stephen Phillips:** I am going to stop you there, because I think it does feed in, doesn't it? I have certainly asked for work to be done in relation to the Foreign Office that would have involved significant overseas travel where I have been told, "There are pressures on budgets and within the Foreign and Commonwealth Office team's budget line that work cannot be accommodated together with everything else that we are doing." That does feeds in, Sir Amyas, and I think it is not right to say that there is not work that is done because there aren't budgetary constraints.

***Sir Amyas Morse:*** You are entitled to that that view, but I do not agree with it. There is a difference between making a judgment as to what a priority in using a particular area budget area should be and what constitutes the most efficient use of that capacity. What you asked me originally, if I may, was: am I suffering limitations in the work that I can do because of the resource that I have? That is a different point. I do not want to rush away from—

**Q31 Stephen Phillips:** Are you being too modest? Should you be asking for more? We know from today's Prime Minister's questions that the Prime Minister is a fan of the NAO and almost everybody on this Committee is, I am sure. The NAO delivers a product that enables the public sector to perform in a better way and this Committee to hold Government to account and to try to ensure value for money, and it is an organisation in itself that ensures that public money is well spent. Given that you are a relatively small organisation that seems pretty lean and you are actually saying, "We'll reduce our budget," are you being too modest?

***Sir Amyas Morse:*** Let me answer that in two ways. First of all, I would say we are at a point now where we are conscious of the cost pressure—there is no doubt about that—so I am not going to suggest that we are in a position where we are very free and easy with resource. I am quite seriously aware of cost pressures, but I do not regard that as something I should be complaining about and I think it is very crucial for me to be in a position that I can put my hand on my heart when I am talking to colleagues in Government and show that I am applying as much rigour as I reasonably can commensurate with being able to do my job. I can't have it both ways: if I said, "I want to talk to you about being cost-efficient and, by the way, when you examine me you'll find I'm not doing anything about that," I—

**Q32 Stephen Phillips:** Well, if you were increasing the number of audits by 10% and increasing your staffing costs by 5%, people might well say that is extremely good value for money because it will drive efficiencies in public spending anyway.

***Sir Amyas Morse:*** And we will come to you with proposals like that when we actually have pieces of work. I have outlined that we try to do that in a conservative, prudent way but we will come with the detail of what we need and why. Where I believe we are now is in a position—as I say, I am deliberately not pretending that it is completely comfortable because it isn't—where there is pressure, but on the other hand we think, considering the pressure in the public sector, that it is right that there should be some pressure on us. I do not wish to escape from that—I think it would be a poor precedent and not a great advert for the PAC either to take that line—but on the other hand, I am satisfied we can do our work, and in order to do it, we have to continually be modernising and becoming more efficient in how we do things. That is a key dependency: we have to keep improving in the way we do things, but if we do succeed in that—I strongly expect and believe we will—then we can carry out our responsibilities with the resources we have.

**Q33 Chair:** I can't seem to find the figure that you produce every year for the amount of money you believe the National Audit Office has saved the taxpayer—what the trend has been.

***Michael Whitehouse:*** We have a target of 10 to one. For 2015, the calendar year, our savings are in the region of £1,208 million, so it is 18 to one. So we do continue to generate very good savings for the taxpayer.

**Chair:** And that is cashable—what you identify as cashable savings.

***Michael Whitehouse:*** Yes. And they are auditable savings. We don't claim them unless they are subject to external analysis.

**Q34 Stephen Phillips:** Can I ask about the outsourcing line in this table? I think it is one of the top three in terms of expenditure. What is being outsourced? Some audits are being outsourced, which I understand.

***Sir Amyas Morse:*** Yes, they are. I should give a little bit of historical perspective. We used to outsource about 20% of our required resource, and in the time I have been in this job we have reduced it to the level you see it at now. It is valuable to have some outsourced work. First of all, it means we do not have an even more accentuated audit peak than we would have otherwise—I will not pause to define that, as I think you all know what that means—and we get access to the skill sets of the big firms, which is quite useful to us.

**Q35 Stephen Phillips:** They are very expensive, though, aren't they, Sir Amyas? Do you have a tender system where you have a list and it is only the Big Four, or do we actually have some second-rankers in there as well?

***Sir Amyas Morse:*** Where appropriate we use others as well, and we are bringing in a system more like an auction, to try to drive down the costs as far as possible. We have an extremely sharp pencil in negotiating the costs we give to these firms.

**Q36 Stephen Phillips:** And that £10.5 million on outsourcing is all outsourced auditing, is it? There is no other outsourcing in there?

***Michael Whitehouse:*** I would say about 95% is financial audits outsourced to the private sector firms. There are occasions where we might draw in expertise on a particular value-for-money study, but that has been reduced quite considerably. That has been part of a deliberate strategy to build up the skill level within the NAO.

**Q37 Stephen Phillips:** Do you publish the figures for what you have spent with each of the contractors to whom work has been outsourced?

***Michael Whitehouse:*** We don't publish them in the accounts, to my knowledge.

**Q38 Stephen Phillips:** Could the Committee be written to with those figures, so that we know who has got what public money?

***Michael Whitehouse:*** Certainly.

**Q39 Nigel Mills:** How do you balance national pay restraint with demand for your staff and the risk of losing quality people?

***Sir Amyas Morse:*** We have a benchmark service provided by Towers Perrin, I think, to benchmark into the private sector accounting firms so that we are aware of the leading rates for particular grades. We are also aware of what our own rate of turnover of staff is, and in some cases, I'm afraid, we are particularly vulnerable. We are in the same market. Our people are coming and training—if they are chartered accountants, they come to us as a student and they train and qualify as a member of the Institute of Chartered Accountants in England and Wales—so they are highly marketable in the private sector and they are headhunted, not only in the private sector, but nowadays, quite aggressively, in the public sector, and by no means at the salary they are already being paid. This is a source of some irritation to me, but it is true none the less, and in a way I suppose it is a backhanded compliment to our people. So I am already under pressure. We try to keep not all the way up to the level of the accounting firms, but somewhere between them and the public sector, so that the gap is not so great that people just feel they have to walk out the door. That is what we are always trying to do.

**Q40 Nigel Mills:** I should probably say that I am a member of the institute you just referenced. In terms of your estimate of staff cost and outsourcing, are you at all concerned that in having to hold down pay, you risk losing people and will have to cover them with temporary staff, which will start a spiral of cost, as we have seen in a couple of recent studies? Do you think that what you have got here will realistically maintain enough of your staff so you can do the work you want to do?

***Sir Amyas Morse:*** Well, it is our best estimate of what we can do. Like everyone else, we have budget considerations. The increase in employers' and employees' national insurance this year has given us an unwelcome bump to our staff costs without producing anything further in the pocket of the staff, so this year, unusually, we are approaching pay in a different way: we are proposing to give a pay increase which is what I call a modified flat rate. We are trying to put all of our staff in the position where they do not lose from the increase in employees' national insurance. We don't want anyone to find that they have had a negative pay rise, if I can put it that way, because you really would risk losing people then.

With the resources available, we had a very careful discussion about it and decided that although we would prefer to target pay rises on those who are most marketable and are performing best, this year, because of this one-off step in costs and our relatively low financial capacity to pay more, we are going to do it that way. Overall, I think that will be supported by the people of the NAO.

**Q41 David Mowat:** If I heard you right, Mr Whitehouse, you said that your ratio is 18 to one.

***Michael Whitehouse:*** Yes, that's right.

**Q42 David Mowat:** For every pound spent, you get 18 back.

***Michael Whitehouse:*** That's our target.

**Q43 David Mowat:** Just following up from Mr Phillips, if that's really true we should have another one of you, shouldn't we? If those sort of spending savings can be delivered, that's fantastic. Business cases and things are very rarely as good as that. Where's the logic flaw? We should be coming back and saying we want to do more. Even if you're doing the low-hanging fruit now and the rest of it is a bit harder—10 to one or something—it's stupendous.

***Sir Amyas Morse:*** Thank you. I appreciate that. I'm not called stupendous very often. It is one measure of showing our impact, not the only one. Favourable though it is, it would be a bit optimistic if I said, "I'll just hang my hat on this one measure. It shows we look amazing."

**Q44 David Mowat:** Well, it is, but you see—

***Sir Amyas Morse:*** Bear in mind exactly how this is done—I'm sorry for talking over you. Where significant sums of money have been saved and we have played a significant part in that, and that part is acknowledged by the Department concerned, we agree a share of the savings that they have achieved. That is what we do. It is not necessarily true that if we did twice the number of audits, we would achieve twice the amount of savings. We might end up finding that we are thrown out of the window by the people we are trying to audit.

**Q45 David Mowat:** No, you are right. I don't want to spend too long on this, but you don't audit everything.

***Sir Amyas Morse:*** No, you're right.

**Q46 David Mowat:** Therefore, presumably there's a lot of stuff that you don't do, as Mr Phillips suggested.

***Sir Amyas Morse:*** Yes.

**Q47 David Mowat:** If on the bits you do we get 18 to one, any other part of Government would look at that and say, "We'll have more of that," wouldn't they? I suppose the other possibility is that some of it might have happened without you. I don't know. But that's fantastic as a business case.

***Sir Amyas Morse:*** Well, that is the reason why we don't expect to have 100% of such benefits. If we think it is only because of us, we want to score all of the savings—

**Q48 David Mowat:** So what you are saying is that your 18 to one is a conservative number, because you take only some of the benefits.

***Sir Amyas Morse:*** No, I don't think it is conservative; I think it is reasonably fair. If you'll forgive me, can I offer you something different? How I really believe that we have done something valuable is when you see change in the Departments as a result of what we have done. On our own recommendations, and yours are often quite similar, I know that over 70% of them are accepted, and when the recommendations of this Committee are accepted, they are driven through into implementation. So, collectively, we are definitely a force for good in terms of driving improvement in how government is carried out.

**Q49 David Mowat:** Yes, and I understand that it is not your only measure and all of the rest of it, but what I am saying is that if an organisation or an entity like yours is capable of developing an 18 to one by looking at a relatively small subset of total Government spending, it implies, if we accept that as true, that another organisation like yours—let us call it NAO2—looking at another subset of Government spending—NAO2 might not be as good; they might only get 12 to one—it implies that it is something that ought to be done.

***Sir Amyas Morse:*** Well, that is not completely unreasonable. I can even narrow it down further. Nearly all of this comes from our value for money work. We do excellent work in the financial audit space, which leads to investigations and to substantial improvements, but most of these type of operational savings come from value for money work, so we are actually generating it out of a relatively smaller part of our cost base. You will be aware of that.

**Q50 David Mowat:** I see. So, out of the cost base that does this work, it is better than 18 to one.

***Sir Amyas Morse:*** Yes, it is. I am only adding to your argument.

**David Mowat:** Yes, you are.

**Chair:** You are almost having a bid for more funding from this side of the table.

**Q51 Caroline Flint:** Going back to staffing, may I ask what the gender breakdown is?

***Michael Whitehouse:*** I am sorry; I should know this. In terms of gender breakdown, we are about 60:40, female:male. I can come back to that. The one thing I would say that I am particularly proud of is that we have been very successful in the career path for women within the NAO in terms of career progression and people getting into manager grades, and this is something that we continue to focus on. We have a leadership team of how many? Five of us?

***Sir Amyas Morse:*** Five of us.

***Michael Whitehouse:*** Two of whom are female. At one point, we had three. It is a really important issue for us within the organisation.

**Q52 Caroline Flint:** Linked to that, in terms of recruitment and the advertising of jobs, does the offer of part-time work come into that as well?

***Michael Whitehouse:*** Yes, indeed.

**Q53 Caroline Flint:** How many part-timers have you got?

***Michael Whitehouse:*** Again, I am sorry; I don’t have the figures to hand, but we have a good flexible working policy. In the planning of our organisation—

**Q54 Chair:** I am sorry; could you speak up?

***Michael Whitehouse:*** We have a flexible working regime within the National Audit Office. We are very mindful of this. I am quite proud of what we are doing. I have a note on this.

**Chair:** What about ethnicity?

**Q55 Caroline Flint:** May I finish on this one? On returners—women who take time off for maternity leave—do you have an active returners' policy for women and others who take such leave?

***Michael Whitehouse:*** Yes, we do.

***Sir Amyas Morse:*** Also, I want to mention diversity, because I am the diversity champion of the organisation. That is not a matter of form; I take it extremely seriously. Gaby Cohen was the diversity champion. We are a Stonewall-commended employer as well. We are very mindful of each dimension of the diversity that we can have. I chair the diversity delivery board. We have networks of many types of minorities. They all come and have a chance to express their views at that board and drive forward implementation and improvement.

**Q56 Caroline Flint:** How many people sit around the NAO's boardroom table and how many of them are women?

***Michael Whitehouse:*** The board consists of eight, of whom three are women. I have got the figures, and I probably should have had them to hand. In the most recent year, our female graduates in 2014-15 increased to 40% from 34%. We recruited 27 BAME graduates, against a target of 22%. I would like that to be a lot better.

One thing you do find in the accountancy profession is trying to get more people from socially disadvantaged backgrounds. We were co-founders of Access Accounting, which has a specific remit with the big accountancy firms and ourselves to increase the number of people coming from backgrounds you would not normally expect to get into the finance community. We are very committed to that.

***Sir Amyas Morse:*** In fact, that has been evidenced by having a significant increase in the number of non-graduate entry trainees.

**Q57 Caroline Flint:** You have an apprenticeship scheme as well in the system, don't you?

***Sir Amyas Morse:*** Yes.

**Q58 Mr Bacon:** You mentioned losing staff. Do you ever poach staff from the House of Commons or the offices of Members of Parliament on the PAC?

***Sir Amyas Morse:*** What a mean question. You know very well that Adrian is sitting behind me.

**Q59 Mr Bacon:** He is on television.

***Sir Amyas Morse:*** I was absolutely thrilled to have poached him and he is doing a brilliant job for us and also, I hope, for you. So I am, I am afraid, like some elderly magpie looking around for bright things, and whenever I find them, I pick them up and try and take them back to my nest. So when I meet very bright people, particularly if they are looking a little bit bored or discombobulated with what they are doing, I say to them, "Why don't you come and talk to us about joining the NAO?" I'm afraid I do that in the Treasury, the Cabinet Office and many other places, and we have recruited from all of them.

**Q60 Chair:** I have a couple of questions in the last remaining minutes and I'm sure a colleague will want to come in on one of them. The Scotland Bill, highlighted in the estimates, was flagged up as something that could generate more work and constitutionally create some challenge. Could you amplify that and, in particular, any costs that may be associated with it? Deidre Brock might want to come in on that as well.

***Sir Amyas Morse:*** To be honest, I am sorry to say that it is still a little bit soon to say the detail of that. I have the obligation to report to the Scottish Parliament on the Scottish rate of income tax, which of course is becoming a very live issue.

That has broadened out to starting to talk to and listen to discussions of the Scottish Parliament about how they are going to identify Scottish taxpayers. That is crucial because it is going to be on a residency test. The dialogue is becoming deeper and deeper. The step where we will discover exactly what we need to do will be as the Bill passes, when we have some detailed dialogue on exactly what is to be done.

I think I am right in saying that the Bill has been passed to the Scottish Parliament to look at at this time. Until all that is over, it is going to be quite difficult to assess. I know, for example, there is going to be an obligation to lay NAO Reports in the Scottish Parliament. What that will involve in terms of discussion is too early to say. I doubt it will involve zero but I just don't know specifically what.

In talking to the Treasury and others involved, I have led as far as possible in trying to get the debate moved forward as fast as possible, but we are just not at the point where we can say more than that now.

**Q61 Chair:** I don't know if you can answer this question, and tell us if you cannot. If a Report is laid in the Scottish Parliament and a Report is laid in the UK Parliament, and we wanted to have you or your support on a particular day and the Scottish Parliament did, which Parliament would have precedence?

***Sir Amyas Morse:*** I am not of this Parliament, and I do not intend to get involved in any complicated arrangements where I have a question of divided loyalties. I have made that very clear in my discussions. I think that would be an absolutely impossible situation to get into.

There is no need for it because there is an excellent equivalent of me in Scotland, with whom I have good close relationships and a high opinion of. It should not occur like that. I was indebted to the Treasury for its thinking on this subject. One or other of us will be in the lead on a piece of work, dependent on where the primary accountability will lie.

**Q62 Deidre Brock:** You mentioned the discussion you have had with the Treasury on the subject. Could you expand on that a little bit?

***Sir Amyas Morse:*** What I was concerned about when the Bill started to move forward was that I was finding myself in contact, however enjoyably, with the Scottish Audit Committee, and I was receiving letters with a lot of interesting ideas about how things might develop in future. It is actually not my job to decide those things. It is a matter between the two Governments to have a discussion and agree what is to be done. I was urging that the discussion should take place across Government. Since the Treasury is my liaison Department in the Government, that is the right place for me to go and push that forward.

**Q63 Chair:** Just one final question. This may seem a small point but, given that you have talked about making sure that you are behaving in the way that you expect those you audit to behave in looking for value for money, there has recently been some publicity about the cost of accommodation for Care Quality Commission inspectors as they travel around the country. A number of your teams will equally travel around the country and be put up in hotels—quite rightly, they have to be given somewhere to stay. Do you have benchmarks and guidance about the expected level of costs for those proper audit visits?

***Michael Whitehouse:*** We fully comply with the civil service. We are not in any way in excess of that. The allowance per night is, I think, £25 for meals and stuff like that. We have clear guidelines.

**Q64 Chair:** For a hotel?

***Michael Whitehouse:*** No, we are not that bad. The hotel allowance is very much within it. We are challenged quite frequently about how we can find accommodation.

**Q65 Chair:** I see some people behind you getting a little nervous that we might be making a recommendation to reduce hotel costs to £25. We are a little less hard on you than that, but it is good to hear. So there is civil service guidance, and you adhere just to that?

***Michael Whitehouse:*** Actually, the principle is that we practise what we preach. We would not go out and audit somebody and be allowing our people to stay in accommodation that would not be allowable.

**Q66 Chair:** Sir Amyas, did you want to come in?

***Sir Amyas Morse:*** I was only going to add that I don’t travel first class on trains, either.

***Michael Whitehouse:*** Nobody travels first class. That is not our policy within the organisation.

**Chair:** Thank you very much indeed for your time. We are now going to switch our witnesses over and move on to our session on financial services mis-selling, which I will introduce in a moment.