



Public Administration and Constitutional Affairs Committee

Oral evidence: Government accounts, HC 95 Tuesday 24 May 2016

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Members present: Mr Bernard Jenkin (Chair), Ronnie Cowan, Paul Flynn, Kelvin Hopkins, Mr David Jones, Gerald Jones, Tom Tugendhat

Questions 1–184

Examination of Witnesses

Witnesses: **Sir Ian Cheshire**, Government Lead Non-Executive and Non-Executive Board Member, Cabinet Office and **Amy Stirling**, Non-Executive Board Member and Chair of the Audit and Risk Committee, Cabinet Office, gave evidence.

Q1 Chair: Welcome to this first session on departmental management accounts and departmental annual accounts. Could I welcome each of our witnesses? Could you identify yourselves for the record, please?

Amy Stirling: Good morning. I am Amy Stirling. I am a Non-Executive Director on the Cabinet Office board.

Sir Ian Cheshire: Sir Ian Cheshire, the Lead Non-Executive for the Government and also on the Cabinet Office board; previously Lead Non-Executive Director of the Department for Work and Pensions.

Chair: Thank you very much and can I thank you both for taking on your roles, particularly Sir Ian who has taken on what is a very significant and important role, or potentially a very significant and important role? The future role of departmental non-executive directors is something we are very interested in. We are going to concentrate on the quality of account information today.

Q2 Mr David Jones: Could you tell the Committee how the Government's approach to management information compares with the commercial organisations and charities you have been involved with?

Sir Ian Cheshire: I will start and we will do a double act, if that is all right.

Q3 Chair: Can I say we have a lot of short, quick questions and if we can have short, quick answers as well, that would be great?

Sir Ian Cheshire: Three very quick points in response. First, the quality of information now compares fairly favourably. I would say that. I am not sure I would have answered the same way five years ago when I first attended a DWP board meeting. There is now much greater clarity and consistency of information. Some of the Departments I have seen are as good as any commercial organisations, including some of the digital presentation data, which is pretty advanced. I think it is better than possibly it is believed to be.

Two other comments: one, it varies quite significantly from Department to Department. I don't think you can easily talk about a Government-wide level of management information. Finally, the missing ingredient—which is, I think, now in the process of being fixed—is the development of single departmental plans. That allows you to have management information in the service of something. The sheer aggregation and communication of data is not terribly interesting. What is interesting is whether the management information tells us whether the plan is on track or not. I think the single departmental plans are crucial now to driving the quality of information to the next level. But I would prefer to say that I have been quite impressed more recently with the quality of information and in some cases it has been really very good.

Amy Stirling: I have only fairly recently been working with Government; since the beginning of 2015. What I have seen is that the MI is comparable with what good looks like in the private sector and in the not-for-profit sector. In particular, during my time I have seen progress on identifying specific targets and tracking performance against those targets. That is both in financial terms and non-financial terms—looking at a broader range of assessments on progress against projects, programmes and so on. I have noted the development of target setting and reporting against targets and also an assessment of progress against key projects, programmes and manifesto commitments, which is a realistic and robust assessment. I think it is fair to say that there has been an optimistic bias—a tendency to think that things are better than perhaps they are—and that we are seeing a more realistic, grounded and fact-based view as a result of that target-setting process.

Q4 Mr David Jones: Sir Ian, you said that management information varied from Department to Department. Would you care to expand on that? Which Departments do you have in mind?

Sir Ian Cheshire: There is a diversity of Departments. The challenge of running DCMS compared with DWP is completely different. DWP: we have spent a lot of time on things like call-centre performance statistics, because they are rather crucial to the whole delivery. DCMS is about managing arm's-length bodies and so it is very different.

In the absence of a very strong central finance function in Government there has been naturally more organic development of capabilities Department by Department. I would not say that one is particularly brilliant or particularly awful but some people have put more effort into it. The one I was most impressed by was HMRC, who I know have had public issues, but the quality of their dashboard on management information was pretty outstanding.

Q5 Mr David Jones: You both say that the quality of the management information in Government is comparable to that in the private sector. Nevertheless, both the NAO and the Institute for Government have criticised management information in government for quite some time. What criticisms of theirs do you recognise as being reasonable and what would you take issue with?

Sir Ian Cheshire: I have read some of the previous papers. To my mind, I would say that the critique was fair four or five years ago. In my experience it was unfocused. It did not reflect priorities. If anything it had too much data and not enough information. The most critical thing—which Amy just touched on—I generally felt there was a good-news syndrome particularly around reporting projects.

The purely narrow financial accounting is fine. It is slightly complicated by the way the parliamentary system works but once you get over that confusion it is fine. The real challenge has been in information about how the Departments are performing, in the broader sense of the word “performance”. I would say that has become much more focused than it was five years ago and significantly it has been a lot more open than it was. If you speak to all the non-executives who came in the first wave five or six years ago—Lord Browne and I have discussed this—we generally found the MI was one of the big issues, but we saw a material improvement on a two to three-year basis. I would not say it is all perfect but, frankly, neither is that the case in the private sector. I don’t think you will find many people who think everything is perfect.

Q6 Mr David Jones: You say there has been this material improvement. What does that improvement look like? What do you notice when you say there has been an improvement?

Sir Ian Cheshire: I would pick out two things. First, the physicality of the board pack—the information that we as non-executives receive—went from being a very unwieldy smorgasbord of information, which you had to wade through to work out what it was telling you, to a much more tightly targeted and project and priority-based bit of reporting.

Q7 Mr David Jones: Less paper?

Sir Ian Cheshire: Less paper; more value and more structure against the priorities. That is really the point. I go back to the planning side of this. The clearer the Departments are about what good looks like and what they are trying to achieve, the easier it is to have good MI against it. The MI issue was not a lack of willingness to provide data; it was a question of what are you reporting against.

The final piece is the non-financial element of that; that has been the area where we have probably seen the most improvement and tightening up. People churn out accounts quite regularly but asking themselves what is happening in the key performance metrics of a Department is a harder question.

Q8 Mr David Jones: I take it from your replies, therefore, that you take issue with the Institute for Government when it says that there is a lack of appetite for good management information in the public sector.

Sir Ian Cheshire: I can only talk about the experience I have had. I am sure Amy can say the same. One of things we found when we came in as non-executives was that management information was not a priority; it was not seen as an important issue as it

would be in the plc environment. When the non-executives have been able to challenge and develop that we have seen material progress. The question has been what it is that the organisation is focused on, and does it have the information to tell whether it is doing a good job or not? In some cases that was less focused than it was in other areas. I don't know whether there were particular areas that the Institute for Government were talking about but, in the departmental board context, I would say I have been pleasantly surprised over a five-year period—not initially—about how much clearer this now is.

Q9 Mr David Jones: What would you say, Ms Stirling?

Amy Stirling: I would echo Sir Ian's comments. In particular, management information is at its most valuable when all are looking at the same information; so the executive and the management of the Department, as well as the board, are looking on a regular basis at the same metrics. Where it is less effective is when information is prepared specifically for the board that is not part of the general ebb and flow in discussion within the Department. What we see is a monthly snapshot of performance against metrics and then a more detailed quarterly view on progress against key milestones. I think that is a very effective way of sharing information. It is important that the information is broad and that it covers all aspects of what the Department is charged with doing as its responsibilities. That is in particular where I think progress has been made; that broader visibility of what good looks like for the Department, not just the financial metrics but the broader considerations around people and talent, projects, information requests, and so on.

Q10 Mr David Jones: What role would you say non-executive directors play with regard to departmental management information?

Sir Ian Cheshire: In my experience the non-executives—Lord Browne has made it one of his personal objectives in his tenure—significantly raised the game in terms of expectations of management information. They have constantly pushed, particularly in the most recent round of developing single departmental plans, to make sure there was clarity around priorities, and clarity, in particular, around the metrics so that the non-executives looking to use the plans and the information coming against them to manage the Department are all looking at one version of the truth. I think the non-executives, led by Lord Browne, have played a crucial role. Obviously there is still more to do. I would not for a second pretend this is perfection but neither do I think it is quite as bad as it was a while back.

Amy Stirling: I think non-executives have a role to play in making sure that information is robust by challenging and asking detailed questions about the assessment of performance. One of the criticisms of MI within Government has been that Departments measure what is measurable as opposed to what may be a good indicator of progress in particular areas. Sometimes that does involve the exercise of judgment. If there is not a natural metric that one can record then it is a judgment about the level of performance and progress against specific milestones, and I think non-executives have an important role to play in asking and interrogating the judgment that is applied in the assessment of progress in particular.

Q11 Mr David Jones: Sir Ian, you said there is still more to do. What more should non-executive directors be doing or demanding?

Sir Ian Cheshire: I would probably echo what Amy just said about the quality particularly of the judgment-based management information and making sure we do not go back to the good-news syndrome and easy, slightly made-up metrics that say, “Everything is fine”. In that context, the particular thing I think non-executives could help with is a lot of this MI comes originally out of some plan. Obviously we have single departmental plans but you have multiple projects set up in most Departments, and I think the focus at the front end of a project—of working out how you are going to measure progress and having clarity about the metrics and the milestones at the beginning—saves you an enormous amount of time trying to work out what is actually going on. An ounce of framing is worth several pounds of reframing. I will certainly be encouraging the network of non-executives to make sure that they are involved at the beginning of things rather than trying to catch up later.

Q12 Mr David Jones: In your experience, is the performance of non-executive directors also something that varies from Department to Department?

Sir Ian Cheshire: As with most human things that is probably the case. One of my jobs in helping organise the network is to try to assess the effectiveness. It is an action area I am looking to develop over the next year or so—we will obviously have broad-effectiveness reviews—to try to get a sense of performance in the sector. I made the offer at Cabinet the other morning: if people feel that their board is not performing then it is partly my job to come and help them and make sure it is performing. I would say the feedback generally is that they are appreciated and they are seen to be doing a good job.

Q13 Chair: Can I chip in before we carry on? Why do you think Secretaries of State, Permanent Secretaries and junior Ministers were not sufficiently interested in good quality management account information before the non-executives arrived on the scene?

Sir Ian Cheshire: What the whole non-executive piece has brought is a greater focus on formal performance management. In some Departments I am sure that did happen, but it gave a focus and a place for people to discuss detailed performance, other than the Permanent Secretaries doing it on their own. I am sure there were these sorts of conversations going on before but the fact that we had a board, and a structure round it, and the need to discuss progress, created a point of pressure that allowed people to ask more deeply, possibly, than just the reflection of the Permanent Secretary.

Q14 Chair: Very few Ministers were interested in management information of the quality we are now discussing. Why do you think that is? Why were Permanent Secretaries not saying, “Minister, you have to be interested in this because this is how you run the Department”?

Sir Ian Cheshire: I think there was, possibly a very long time ago, an old model that a politician creates policy and then throws it over the wall to civil servants to administer. I have to say that in my experience, particularly in DWP, that was absolutely not the model. The Secretary of State was extremely interested in delivery and very effectively so. I arrived there with a Secretary of State who was very engaged in the delivery question and I have also seen similar Secretaries of State up close in the Ministry of Justice and DfE. I think it might vary, depending on the ministerial experience

I would go back to the difference in Departments. There are clearly five or six major Departments that are much more like big plc—the Ministry of Defence and DWP for

instance—where the challenge is big organisational management. DCMS and others are less so. In those big Departments there has always been more focus on that delivery metric. The advantage the boards bring is that it gives you a formality to ask these questions and a structure. I think the initiative that Francis Maude and others created has helped but I am sure there was a pre-existing level of interest and it has just made it much more formal.

Q15 Chair: So it does depend upon non-executive directors being assertive? That is a “Yes” or a “No”.

Sir Ian Cheshire: Yes.

Q16 Chair: How can non-executive directors be assertive if their appointment is in the gift of the Secretary of State, their tenure is in the gift of the Secretary of State, and they have no statutory obligations, functions or fiduciary duties?

Sir Ian Cheshire: I think it depends on who you have recruited and whether they understand the nature of the role. In my experience of the 72 of us around Whitehall, we are pretty independent. A large proportion are doing it for no fee, because we think it is the thing we should do, and if we are told that the Secretary of State does not value our opinion then that is their prerogative. It does not affect my assessment of what I would say in front of someone and, if they do not follow that advice, that is their decision, not mine.

Q17 Chair: What happens then?

Sir Ian Cheshire: I suppose, if you went on for a year or two like that, I would imagine the non-executive would probably decide it was not worth playing.

Q18 Chair: How satisfactory is it, that the non-executive directors are just these temporary, non-statutorily recognised passers-by?

Sir Ian Cheshire: Most of them I think would say from our end of the table that it is a pretty satisfactory arrangement and, although it does not have the statutory basis you referred to, we have understood that the nature of the role is essentially as advisory boards that do not have executive power. I think there are also constitutional questions about how this is best handled.

Q19 Chair: What is your opinion about putting non-executive directors on a more formal basis, and giving non-executive directors of Government Departments fiduciary duties and obligations?

Sir Ian Cheshire: That is obviously for someone other than me to decide. My view on it would be that it is currently not absolutely necessary. If it was deemed to be something that the Government and others wanted to do, it would be possibly helpful but it is not crucial to our ability to influence.

Q20 Chair: What guidance have you been given on how to answer that question?

Sir Ian Cheshire: None, basically.

Q21 Chair: Okay. That is fine. But the term you use is “not absolutely necessary”. In your previous answer you suggested that, unless the personal chemistry is working, it becomes necessary.

Sir Ian Cheshire: I would say that—and this is true for plc boards—there is also a requirement for relationships to be ones of mutual respect, and I have to say that I have found that to be the case across the board of the boards that we have been involved with. I think putting it on a formal basis does not get around the fact of whether the person is capable of contributing, respect for the contribution, and are they given the chance to do it? I would say that the current system is working reasonably well. Obviously there are going to be some areas that can be improved on. I would not say that we need to make it a statutory appointment because, ultimately, it is about how much the Department values and engages with you, regardless of the formal qualification.

Q22 Chair: On a company board, the executives have to respect and engage with the non-executives. What obligation exists on a Secretary of State and a Permanent Secretary to engage with their non-executive directors?

Sir Ian Cheshire: I would say the basis for the system—this is something I touched on with the Cabinet—is that, on the whole, the non-executives are absolutely valued for their input. They are listened to on these topics around delivery. We are very clear about the contribution we can make, and we have taken the time to understand the Department to be able to be useful contributors. Frankly, I am not sure that any form of formal underpinning of that would change the key issue of mutual respect. I have seen occasional boards where there is no mutual respect and no amount of company legislation will change that. The quality of the relationship is the key and probably the understanding—particularly of the Secretary of State now—to how to use boards to best effect. The civil service have now understood how to use the sort of talent of people like Amy. For some of the Secretaries of State, if they have not run a big Department before, that will be a new idea to them and I think it is our job to make sure they understand how best to use a board.

Q23 Chair: To whom are the non-executives accountable?

Sir Ian Cheshire: Essentially, the non-executives are there to advise the Secretary of State. That is the full definition of the role. In that sense, they are appointed and can be removed by them so they are accountable to them. Personally, I am also accountable to the Prime Minister as well as the Minister of the Cabinet Office, but this is primarily a departmental accountability.

Q24 Chair: How much more accurate would it be to call you “non-executive advisers” rather than “non-executive directors”?

Sir Ian Cheshire: We debated this very topic when I took over as the lead non-executive, because I think they are advisory boards rather than non-executive directors in the plc sense of the word. On reflection, the network and the Secretaries of State were undecided. We decided not to change the name. It had been established as a function.

Q25 Chair: Why?

Sir Ian Cheshire: We felt it would cause further confusion; that if at the beginning they had been set up as advisory boards, that would have been fine but, given that they had

been set up like this, let's not change it. But we were very clear—and I do make it clear to the network of non-executives—that we are there in an advisory-board capacity; that we do not have legal status.

Q26 Chair: What is the confusion you refer to?

Sir Ian Cheshire: A non-executive director in a plc has legal status, has responsibilities and accountabilities and has a degree of formal involvement in the setting of direction and responsibility for the company. That is not the case with the Government non-executive roles.

Q27 Chair: Who has been confused?

Sir Ian Cheshire: If we changed the name from non-executive director—

Chair: No. Who has been confused? You said there was confusion.

Sir Ian Cheshire: I do not think there has been confusion. There would have been confusion if we changed the name.

Chair: No. That is not what you said.

Sir Ian Cheshire: Okay, well I am sorry.

Chair: You said it would make the confusion worse.

Sir Ian Cheshire: Okay. In that case I apologise.

Q28 Chair: Who is confused about the role of non-executive directors?

Sir Ian Cheshire: We had a debate about this and we decided it would be confusing if we now changed the name.

Q29 Chair: I think you have slightly changed what you said, but never mind. I think what you intended to say was that calling non-executive directors “directors” is confusing because that is not what they are.

Sir Ian Cheshire: They are technically not directors.

Q30 Gerald Jones: John Manzoni previously referred this Committee to improvements in management information sponsored by the Cabinet Office and Treasury in particular. How successful do you think these improvements have been?

Sir Ian Cheshire: I feel that what we are now seeing with the functional leadership agenda that John is pursuing is the development of the finance function across Whitehall and the higher quality of focus on the content of reports. As I said earlier, I think you are still going to see quite a lot of variation between Departments because this is essentially a federated structure of Departments rather than a single Government. One of the challenges for John and the team is to up the overall level, because you have variations there, but certainly in the last three to four years I have seen a significant and steady improvement. I think the key now is that with the single departmental plans there will be an opportunity to raise the game significantly further.

Q31 Chair: Can I ask what you understand to be the meaning of the term “functional leadership” because it keeps cropping up?

Sir Ian Cheshire: This goes to the private sector parallel, which is that in group structures we are quite used to having individual operating units. Functional leadership in that context means that you have the finance directors reporting to the finance director of the group, the HR people report to the HR director of the group, as opposed to just the local operating head. What I think John is trying to establish, increasingly, is a view of Government running the functional side of government, which is that there is a strong—be it in finance, potentially HR, certainly things like the legal profession—cross-Government functional structure as opposed to a Department by Department structure.

Q32 Gerald Jones: How useful are management accounts in tracking spending on programmes and assessing the outcomes?

Sir Ian Cheshire: In my experience, there have always been accurate financial systems. I don’t think we have seen anything to cause concern there. There are two areas where there is always challenge, which Amy has mentioned. One is the non-financial performance of projects, which often is the more important in the sense that the finances will follow whether it is on track or not. That is an area where I think we need to continually look to improve. The second is the degree to which the numbers are accurately reflecting future accruals and future cash flow. We are quite good at capturing what has happened. The degree to which you can constantly reforecast is a real challenge. I have to say it is a massive challenge in the private sector. We are constantly disappointed with our ability to financially forecast, particularly cash flows, as accurately as I would like. I don’t think it is unique to Government but probably the forecasting element of it—as opposed to prior, past reporting—is the area where we want to see more.

Amy Stirling: There is an important distinction between management information more broadly and management accounts, management accounts being a purely financial measure of the performance and spend within a Department, and the management information framework being that breadth that covers those areas. As we have referenced before, that can be harder to track and follow and it perhaps involves some judgment in assessment of performance, in particular, in large projects. While the direct costs involved will appear in the management accounts, the value-add is in pulling out and specifically being able to report on those programmes. That is a harder task for Government than the production and preparation of the pure management accounts.

Q33 Gerald Jones: In 2012 Lord Heseltine recommended to a predecessor Committee that the Government should adopt the MINIS system that he introduced in the 1980s, linking budgets and forecasts along with performance and outturn. Could I ask for your view on the MINIS system?

Sir Ian Cheshire: Yes. I am probably not the world’s expert—I have seen a bit about this—but my sense is that a lot of the spirit of what Lord Heseltine was talking about is going to come through on the back of the metrics in the single departmental plans because, essentially, the systems from the 1980s will have moved on. I think his recommendation will end up being implemented by the tracking of the single departmental plans, because the metrics in there very much correlate with what I think he was looking to do. In direction he was absolutely right.

Amy Stirling: As I understand it, a big part of the focus was about being able to identify specific resources that were in train to achieve specific objectives. In the current environment, Government Departments are sharing resources and so it is important to avoid an industry of allocation. You would expect Government Departments to have shared resources delivering against multiple projects and so, as Ian says, the single departmental plan identifies the resources that are available for the Department and focuses on the outcomes and the milestones that are expected. I think that is a more current way of thinking about and tracking and monitoring performance than perhaps more specific, direct allocation from resource to outcome.

Gerald Jones: It also recognises there may be shared outcomes with other Departments as well. Thank you.

Q34 Chair: The attraction of MINIS is it is a very readily understandable sheet of paper, or collection of sheets of paper. What you describe as a single departmental plan, in my imagination, immediately promotes something of a fog compared to the very simplicity of these bits of MINIS. Given that you are trying to attract the attention of tired and stressed Ministers and hard-pressed Permanent Secretaries, how simple are single departmental plans compared to MINIS?

Sir Ian Cheshire: Again this is based on a very small sample, Chair. What I have seen is—again this goes back to the difference in Departments—for the large, complicated Departments the single departmental plan will be more complex, because these are big beasts, in the same way that a very large plc will have a big five-year plan. The key is whittling down the frequent management information to the key priorities and then using it as a drilldown and as an alert, as opposed to having to read all 500 pages every month.

My sense is that the push that we put in—and non-executives have been very much part of the single departmental plan—is to be able to say, “We start with a limited number of key priorities” and then we can track down and follow how those get delivered against which resources, as Amy said. I think we have pared it down to a viable, minimum management basis. It will be much less of a challenge in a smaller Department. In the big Departments there is just more to track but, given that, I think these plans are potentially the first time we can have a single view that incorporates manifesto, business as usual and change programmes, and that makes it a big step forward.

Q35 Chair: So it is possible to measure progress against a single departmental plan on a monthly or quarterly basis?

Sir Ian Cheshire: Quarterly is probably the more realistic, given the sum of the projects involved; but yes.

Q36 Chair: The metrics against which you are making those performance assessments; are they going to be published?

Sir Ian Cheshire: As I understand it, the summary of each departmental plan is already published. Some of those include some metrics; not all. It is really a practical question. If you are running something like DWP, you have obviously a very detailed plan supporting the summary and probably not all the metrics are going to be published, in the same way that I would not have published all the metrics in a plc because, frankly, it would have been overkill. Realistically, what you measure internally and control for, you do not

necessarily want to publish every single piece. My view at the moment—we will have to see how this evolves—is that the top-level metrics, which will be published as part of the summary, are certainly enough to allow people from the outside to track. They are not the only bits of information that Departments will carry on publishing, so there should be enough transparency to assess externally how the Departments are doing. But there will be a much more detailed pack internally because that is just the way you would run a Department.

Q37 Chair: For the sake of real-time accountability, what are you saying should not be published that is actually useful to Ministers who are running their Departments?

Sir Ian Cheshire: To get a sense of progress on the key priorities, I think it is possible from the summary to work out that the Department is on track or not on track based on what it should be able to publish. What I think would not be appropriate is publishing the full management information pack for everything because, first, you would have to put masses of commentary round it, trying to explain it. Secondly, there are some times when the detail here needs to be put in a context that a board can and do spend some time on; publishing the data itself I am not sure would be massively helpful. The key question is: are the priorities there with major metrics against them and is that understood? If that is understood then the detailed work that goes on in a finance department or in the board, I don't think necessarily needs to be published.

Amy Stirling: All organisations will have a hierarchy of management information that is very detailed at the bottom and used for day to day decisions and summarises up to the top, which gives you an executive summary—a view of performance. It is important that the information is right for the audience. So at the top there is an understandable test, which applies all the way through private sector reporting. You would expect organisations to have multiple levels of management information and to be focusing on the right information for the right audience.

Q38 Kelvin Hopkins: You have touched on this to an extent already, but how accurate and useful are the Government's forecasts and models for future expenditure in the management accounts?

Sir Ian Cheshire: A very good question. It is fair to say that forecasting is a challenge for all large organisations, particularly ones executing big change programmes. That is one of the areas where it is probably hardest for Government, given the scale of transformation that is going on in so many Departments. A lot more attention is being paid to this now and, in particular, control of major projects is probably the key for a lot of the forecasting challenge because that is where a lot of the uncertainty lies. It is quite easy to take chunks of departmental activity and be able to predict more or less what they will do, even three or four years out. It is the change programmes where things get harder to do and that is frankly a challenge for all large organisations, whether Government or private. What has become clearer is that with things like the major projects authorities and various other training and development activity, there is much greater focus on quality of forecasting, particularly at the beginning and the planning stages of these things. It is something that, as a board, I would be expecting us to talk about every time we met.

Amy Stirling: We talked a little earlier about functional leadership. One of the key focuses of the finance community within Government is the development of forecasting capability,

and that is both the frequency with which forecasts are updated and the depth at which there is understanding within the Department of performance against forecast. It is fair to say that progress is being made, and that is an area of focus for the finance functional leadership: improving the capability and effectiveness of forecasting.

Q39 Kelvin Hopkins: Governments are sometimes wilful. They want to do things politically and they either suppress or ignore or marginalise forecasts. HS2 is one classic example where costs are clearly ballooning but the Government sticks to its original predictions.

Sir Ian Cheshire: I am afraid I am not sufficiently HS2-qualified to give you an answer on that one. What I have seen is a much clearer awareness of the risks and challenges in major projects, as a result of maybe some of the prior experience and a greater willingness to debate and control these things. Certainly, in my time at DWP, we had major projects like universal credit and others. There was a very honest and frank discussion about where they were and what was going on. I came away thinking that, by comparison with private sector projects and changes, the quality of conversation was parallel; it wasn't a less informed discussion. The only thing I would say is there is a material complexity in Government, where I am very keen to explain to the non-executives, "This is not cut and paste across from your corporate world. It is a significantly bigger, more complex set of issues," and so we have to be aware of that. Particularly on these major projects there are some very large challenges and it is absolutely the right area to focus on them.

Q40 Ronnie Cowan: The report says over 70 reports have identified forecasting weaknesses since 2010. It seems a heavy slant; that forecasting simply is not providing the sort of information required for people to model the finance required.

Sir Ian Cheshire: Again, if I take the totality of the spend and the materiality, I would say that compared with commercial forecasting rates it is not that far off. I think it is harder in Government than in a commercial environment to forecast as accurately, because of some of the conflicting demands. It is still a performance level we need to continue to improve but I don't think it is as dramatic as the 70 number on its own would suggest. I would put it in with the things that we absolutely are working on and need to continue working on, and non-executives will continue to challenge on it because it is an area of concern.

Q41 Ronnie Cowan: The numbers are high; you were talking about HS2 there, but the writing was on the wall from HS1 when the taxpayer was expected to be pick up an extra £10 billion of expenditure because the number of passengers using it is not what was forecast.

Sir Ian Cheshire: Again, without wanting to get into the joys of the Department for Transport, I would say that the reality of some of those projects, particularly some of the choices made around the projects, do make them quite difficult to forecast. All I would say is that, in the majority of the cases I have seen, and the vast majority of spend, the levels of control and forecasting are okay; not perfect.

Q42 Ronnie Cowan: The NAO report, "Forecasting in Government to Achieve Value for Money"—snappy title—said there were poor relationships between staff responsible for creating forecasts in finance departments and Government Departments. How bad is this?

Sir Ian Cheshire: This goes back to the functional leadership piece. There needs to be a clear role for the finance department in every function that takes responsibility for forecasting and assurance. For boards one of the things that we very much rely on—and will be interrogating the finance functions on—is the forecasting against the single departmental plan and how accurate that is. That is going to be a key metric for us.

Q43 Ronnie Cowan: How bad is this?

Sir Ian Cheshire: The way I would describe it at the moment is slightly worse than the private sector—because I think the private sector has had more practice on financial forecasting—but not a catastrophe.

Q44 Ronnie Cowan: It was described in the report as “entrenched”.

Sir Ian Cheshire: I think what there has not been is as much focus on the real detailed financial forecasting. That is something that we have seen improved but not yet fixed.

Q45 Tom Tugendhat: As you are sitting here it would be silly not to ask: what sort of role do you see for the Select Committees in scrutinising regular management information?

Sir Ian Cheshire: We talked about what is published and what is not published. The quality of management information is absolutely something the Select Committees ought to be inquiring about, because it is a crucial tool for how Government is being run. Certainly, on behalf of the non-executives, there is a very open enthusiasm for talking about it. We are very happy to talk about the progress, where the issues are and where they are not. Ultimately, it is a question to assure the citizens that the money is being spent correctly and in a way that is professionally managed.

Q46 Tom Tugendhat: How often should we have management accounts available to us?

Sir Ian Cheshire: In the sense that Amy has talked about, the broader management accounts, the management information for Departments, I think that a quarterly cycle of management information is a useful thing. I think monthly in the corporate world is fine. It would possibly be misleading, given the scale of the projects you are dealing with in Government, but a quarterly cycle of management information I think is entirely possible. I would hope that the single departmental plans will give you a framework against which that information could be—

Q47 Tom Tugendhat: What kind of real time impact can Select Committees then have on Governments based on that?

Sir Ian Cheshire: I would have said fairly direct and fairly impactful because, particularly if it is known that this information is transparent and available, then it will get the attention in Departments because people will know it will be scrutinised, so I think it would be pretty direct.

Q48 Chair: Could you help this Committee by sending the latest set of management information, which was presented to the Cabinet Office board, to this Committee? Not necessarily for publication but so that we can see what you are looking at in order to inform this inquiry. I do not think that constitutes advice to Ministers. I am sure we have the right to see it.

Sir Ian Cheshire: I will have to clear it. I am personally very happy to do that, Chair. Might I suggest that, if we can send you something, we send you a couple of Departments rather than just the Cabinet Office so that you get at sense of—

Q49 Chair: I would be happy myself to come in to the Department for a briefing on your management accounts if you did not want to let them out of the building. I think we need to understand what the reticence is about—

Tom Tugendhat: Chair, the point made there of several Departments is useful, so we can then do a comparison.

Sir Ian Cheshire: Although Amy chairs the Audit Committee of the Cabinet Office, the Cabinet Office is—

Q50 Chair: Interestingly for us, the Cabinet Office is the Department that we look at.

Sir Ian Cheshire: No, I appreciate that.

Chair: Therefore, I think we are entitled to look at those accounts.

Sir Ian Cheshire: I will ask accordingly and I am sure—subject to clearance—that will be fine. The point really was to the quality of information. It might be interesting to see some of the other Departments just to get a sense of what the other boards are looking at.

Q51 Chair: How are single departmental plans meant as a substitute for MINIS? I have been looking at the Cabinet Office departmental plan and it has DEL, Department expansion limit, £365 million at the top and has £347 million resource DEL and £18 million capital DEL, but then it has, “Vision: supporting the Prime Minister’s programme, what the Cabinet Office is doing”. What has happened to that? There is an awful lot of commentary and not very many numbers. I do not see anything comparable that will tell me in any granular way how the Department—it is puff, basically, isn’t it?

Sir Ian Cheshire: I don’t think so. Obviously, as Amy said, that is a summary of a much, much more detailed plan that does have an awful lot of numbers attached to it. I don’t think the summary necessarily means that there are not—

Q52 Chair: Numbers can be summarised as well. The MOJ departmental plan only has one number and that is £6.5 million departmental expenditure. There are no other numbers at all in their single departmental plan. It looks more like a party manifesto for the Government in office, what we are trying to do.

Sir Ian Cheshire: It is designed to include the manifesto commitments explicitly so that, in that sense, it is not surprising. I think if the request is to say that the level of summary detail is insufficient, is that what you are politely suggesting?

Q53 Chair: Being honest with you, Sir Ian, these single departmental plans are not management information.

Sir Ian Cheshire: We can debate this one. What I would say is two things, Chair. The detailed single departmental plans are absolutely the way that the Departments are going to be run and the boards are very intimately involved with that.

Q54 Chair: But the intention of these summaries is that the public should not know how the Department is being run?

Sir Ian Cheshire: I don't think that is the case. I think if the challenge back is that it is insufficient in terms of detail—

Q55 Chair: If you were a non-executive director and all you got was this published information, how would that help you run the Department?

Sir Ian Cheshire: The non-executive director will see the full plan.

Q56 Chair: Exactly, so how is it meant to help us understand what is going on in the Department just by looking at the published information?

Sir Ian Cheshire: It should do two things. It should give you the priorities for the Department and it should give the metrics. If the metrics are not sufficiently clear, and this has been a once round debate, I am very happy to—

Q57 Chair: But there is no indication of what programmes are on budget, what programmes are over budget, what programmes are behind time or ahead of time, there is none of that information.

Sir Ian Cheshire: No, it is not there yet because we have just published the plan and then we have to report against the plan. So what should happen in the metrics that will be published is that we will be reporting against those priorities and say whether we are on plan, under budget, over budget or not. This is literally the point where we are just publishing the plan.

Amy Stirling: I think the single departmental plan runs to some 12 pages or so at a summary level and its purpose is to explain the plan for the five-year time horizon. The departmental accounts that then get published on an annual basis are the external means by which there is the opportunity to track and report performance against those key commitments that are set out in the departmental plan, so I think they ought to be seen together in aggregate: one is the regular reporting on progress, the other is the statement of intent.

Q58 Chair: Sir Ian, could you provide a note to this Committee as to how you think a Select Committee should be able to determine the performance of the Department from the information that is currently published? I used to work in the private sector buying shares in private and public companies and I do not think any analyst could derive any meaningful information that really would determine the performance of the Department. Certainly we could not do a buy or sell recommendation on the basis of the information that has been published.

Sir Ian Cheshire: What I would say is that what has been published so far will be similar to a company publishing its strategy plan, and that is what it is. The question then is: how is it—

Q59 Chair: We started talking about management accounts and now you are telling me that it is just a strategy plan.

Sir Ian Cheshire: No, the single departmental plan is literally the integrated plan for how you run the Department.

Q60 Chair: Are you trying to say, “We don’t do MINIS. We do single departmental plans”? They are not the same thing, are they?

Sir Ian Cheshire: I would say, from what I have seen, the single departmental plan in full detail is significantly more thorough than the MINIS summary would be. The question is then how do you report against the achievement of that plan?

Q61 Chair: On a quarterly basis.

Sir Ian Cheshire: On a quarterly basis, and the board are going through that process exactly and scrutinising that progress.

Q62 Chair: But at the moment what is available to the public or to Parliament that reports against those plans on a quarterly basis?

Sir Ian Cheshire: As far as I am aware, there is not an existing plan to report externally quarterly. There is the full—

Q63 Chair: So Parliament has no evidence on which to satisfy itself that there are good management accounting practices in Departments?

Sir Ian Cheshire: Obviously inquiries like this are one way it can assert that and check it. I would say that in my experience and in the board’s experience there is, particularly now if we can get the plans to use on a regular basis.

Q64 Chair: In your response could you very kindly explain how you think Parliament can measure, on a quarterly basis, performance of Departments against their single departmental plans and what information, therefore, should be available on a standard basis across all Departments—recognising of course that all Departments are very different—so that there is a recognisable piece of paper that will be received by Select Committees on a quarterly basis, which our scrutiny unit can look at and form the basis of cross-examination and scrutiny on the basis of real-time information? That is not something we have at all at the moment.

Sir Ian Cheshire: I am not sufficiently qualified to get into the constitutional niceties of who does what and how, but I will certainly take on the request and come back to you with a note as to what is the art of the possible. I obviously will defer to the Secretaries of State and others who will have a view on it as well.

Chair: We may come back to you on this matter.

Sir Ian Cheshire: Yes, absolutely.

Q65 Paul Flynn: I have a question of some significance I think, Mr Chairman, following on from what you said about the efficiency of the warnings that we get and how the public purse can be protected. There has been one Department, the Cabinet Office, that has been haemorrhaging money for two years now and I have not seen any quarterly reports that did this. It was signposted in debate on 8 July 2014 when the two splendid MPs for Newport pointed out that a plan by Francis Maude—whose appearances at this Committee we greatly miss—to privatise the shared services was palpably insane, because the existing shared services under the civil service umbrella had been working very well and making a lot of money. It made about £25 million from the Newport shared services alone. This was likely to continue but Francis Maude decided to privatise the services and hand them over to Sopra Steria, which is a French company, and Arvato, which is a German company. The Public Services Union and the members for Newport pointed out that this was not a good idea, on the basis of the abject failure of those two companies in previous operations and the fact they had no experience in running shared services.

Two years later we now know that—instead of the expected £500 million that was promised that they would make, or they would save, which certainly if they had continued on the old path they would have saved—they have not made any profit at all. They made a loss of £4 million. What in fact they made is a loss of £504 million. If we had continued without the interference of a Minister who believed that everything public was bad and everything private was good, it would have saved the country, the taxpayer, £504 million up until now. These things are still continuing. Can you tell us in this quarterly report what should we have and why the alarm bells have not been sounding until now? Why have we not heard that this was a stupid idea that was going to lose money? The union went on strike in July 2014. They had a token strike one day, a very rare event, and I was happy to join them—

Chair: Sir Ian?

Paul Flynn: This is an interesting part. I know it was a part you did not want to hear, Mr Chairman. Let me get the point out. It cannot be delivered in soundbites.

Chair: I just want Sir Ian to answer the question you asked, that is all.

Paul Flynn: Indeed, let me finish the point. It is very serious. It is £504 million that was lost by a Minister acting in a very foolish way because of his political doctrine and not because of common sense. Shared services were working. It was a good idea to put back services together in one place and it was working. They stopped a good service that was working and changed it by purely adopting a system that has lost £504 million up until today. What are you doing about it? What is your role in this? Where were the quarterly reports? Why were we not told?

Sir Ian Cheshire: Right, there is a lot of unpacking there. I will try and do a quick answer, which is partly because I have only been in the Cabinet Office for a year. Previously I was in DWP so it was not a particular project I had much visibility of. The second part of the answer is that it should be a project that was then tracked and will be tracked through the Cabinet Office data. So it would be visible if it was on track or off track.

Q66 Paul Flynn: On 7 July 2014, there was a debate in this place about it. There was a strike by the public service. It was certainly held up two years ago as an idiotic idea that

was going to lose money and Mark Serwotka has rightly said, “We told them what was going to happen. We told them this firm was incompetent and they went ahead and did it”. Despite the fact you have only been in the job for a year—a year is 12 months, for goodness sake, that is four quarters—why have we not heard about it? Why have no Select Committees been told about this loss of public money that is going on and on? It was signposted. The Government were warned about it. Francis Maude was warned what was going to happen.

Sir Ian Cheshire: I seemed to see something the other day that suggested that the National Audit Office had identified this and had reported on it, so I am not sure it was a secret. Whether or not it worked I—

Q67 Paul Flynn: It wasn’t a secret; it was well known beforehand.

Sir Ian Cheshire: Whether or not it would have worked, I really obviously do not know enough about that situation.

Q68 Paul Flynn: Well, who does? I know it is only £504 million, which I suppose must be small change in Government waste.

Sir Ian Cheshire: That is a lot of money. I think what it should be, though, is an example of a change project, which is identified in the current plan, and is tracked.

Q69 Paul Flynn: It was identified beforehand. Who would sound an alarm and say to Francis Maude, “You are behaving like a doctrinaire, foolish politician, following a line that is going to cost the Government money”? Is anyone going to stand up for public finances? Or do you say, “Carry on, Minister, waste money if you want to”?

Sir Ian Cheshire: No, but to go back to what the Chair said before, there are clearly authorities and roles that Ministers and Secretaries of State play. The board does advise and does challenge and will make these sorts of comments.

Q70 Paul Flynn: Just a moment, could we take the civil servants who quite correctly told the two Ministers in the Cabinet Office they were wasting money giving £3 million to a charity three days before it collapsed? Those civil servants deserve a pat on the back for getting in before the event, but those who allowed the shared services scandal to continue have waited two years before they have sounded an alarm.

Sir Ian Cheshire: Again, without knowing enough about the genesis of the shared services, what I would say is that ultimately the Ministers have to make these decisions. That is what they are elected and appointed to do. The advisory boards, the non-executive directors absolutely will take a view on those issues but, ultimately, we do not make the decision.

Q71 Paul Flynn: Shared services have been going since 2006. Don’t you think it is about time that you caught up with what is going on?

Sir Ian Cheshire: To finish that. The shared services programme is now part of the Cabinet Office single departmental plan. We will absolutely be tracking further progress on it, or lack of it, and it is something I would anticipate would be reported on.

Q72 Paul Flynn: Francis Maude has gone; we cannot punish him. We have two other Ministers who gave away £3 million. They have not been punished. It is a completely irresponsible Government that throws away money and nobody brings them to book. Is that the situation? Shouldn't the civil servants be doing it and not waiting two years before they do it?

Sir Ian Cheshire: I think constitutionally the civil servants and the non-executive directors are there to provide advice. We do not take decisions. The decisions are taken by Ministers and the consequences, presumably, go with Ministers.

Q73 Chair: Sir Jacob Rothschild always had a maxim for the running of his businesses, which was, "Always cry over spilt milk", because it is not that you can save the milk but you can learn from how the milk was spilt. What role do non-executive directors play in promoting learning from an experience like this shared services contract or, indeed, the regrettable letter of direction signed by two Ministers to give money to Kids Company?

Sir Ian Cheshire: It would be a topic that the board would discuss and the non-executives are perfectly capable and willing to talk about what needs to be learnt from those situations. There are limits, however, if it gets into the realms of political decisions that we just simply do not have the functional basis to make a critique on in that way. What we are interested in is learning for the Department and we should absolutely take that on board.

Q74 Chair: How would that learning be recorded and disseminated? Talking is one thing.

Sir Ian Cheshire: To be honest I am not sure about this dissemination, given the rules about what does and does not get published by—

Q75 Chair: I am not talking about externally; I am talking about how that learning will be disseminated internally so that the lessons are learnt.

Sir Ian Cheshire: Internally, and again I have been in a variety of conversation in both the Cabinet Office and DWP in the past where there has been a full discussion of what has gone wrong and right in various projects and various situations. The key thing is the executive team in the Department understanding what requires to be learnt for next time; in particular the risk management—the risk management processes that various Departments apply. Personally, I completely agree that you learn more from your mistakes than you probably do from your successes and it is important that that is openly discussed inside Departments. That is certainly something the non-executives—

Q76 Chair: How much appetite is there for that kind of discussion?

Sir Ian Cheshire: I thought initially this would be an area people would not want to discuss and it has been more open. I have not seen anything where people are trying to avoid those sorts of debates. It is in the same way that a company would own up and discuss its failures around the board table.

Q77 Chair: Right, thank you very much again. It has been very helpful and we look forward to the written information.

Sir Ian Cheshire: I will come back with that.

Chair: Thank you very much.

Examination of Witnesses

Witnesses: **Sir Amyas Morse**, Comptroller and Auditor General, and **Kate Mathers**, Director of Financial Audit Practice and Quality, National Audit Office, gave evidence.

Q78 Chair: Could our new witnesses please identify themselves for the record.

Kate Mathers: Good morning, Kate Mathers from the National Audit Office. I am the National Audit Office's Director of Financial Audit Practice and Quality.

Sir Amyas Morse: I am Amyas Morse. I am the Comptroller and Auditor General.

Q79 Chair: We will try and get you out on time. We will ask short questions and we hope that you will give short answer, and if I think you are going on a bit too long I might shorten you or my colleagues.

Sir Amyas Morse: Excellent.

Q80 Paul Flynn: What is the purpose of the Government annual accounts?

Sir Amyas Morse: Providing a credible record to all interested parties of how the resources voted by Parliament have been used.

Q81 Paul Flynn: Why did you take so long to note the loss of £504 million from the Government's departure on the shared services policy by privatising it instead of keeping it within the civil service?

Sir Amyas Morse: I am sorry I don't quite understand the question. Why did I take so long to? Can you give me a little bit of context?

Q82 Paul Flynn: Two years ago the Government decided to change the shared services policy, which was taking back services and centralising them in areas rather than having them spread throughout the country. In one centre alone, this was saving £25 million a year. Two years ago, Francis Maude, the Minister, decided that he wanted to privatise the services so he took them out of civil service control and handed them over to two groups: one called Sopra Steria, which is a French company, and the other one called Arvato, which is a German company of the Bertelsmann group. Both had no experience in the area and Steria had a record of abject failure in the particular area. These decisions were debated in this House on 8 July 2014. There was a strike by the farsighted Public and Service Workers' Union, and there were clear warnings that this was going to not save £500 million but to lose money. In fact, it has not saved a penny. It has cost £4 million. It has actually lost £504 million because of a decision by a Minister who believed that everything public was bad and everything private was good. Because of that wrong decision the public purse has lost £504 million and is continuing to do it. Warnings were clearly given. This was foresight not hindsight, yet it was ignored by Government. What are the auditors doing? This is two years

ago that the decision was taken, and the shared services workers went on strike for the first time to draw attention to what they saw was just not a threat to jobs—

Sir Amyas Morse: You know we have published a report on this?

Paul Flynn: I do know, yes, but you have published it last week, I believe.

Sir Amyas Morse: Yes, that is right.

Q83 Paul Flynn: Why did it take two years? What was the accounting—

Sir Amyas Morse: I am not under an obligation to report on everything that happens in Government but it became apparent to us that there was an issue on this and, therefore—

Q84 Paul Flynn: When did it become apparent?

Chair: Can you let Sir Amyas answer, please?

Sir Amyas Morse: It became apparent obviously when we decided to do a report, or just before we decided to do a report. There was a lot of information to be gathered on that report. It took us about eight or nine months to do the report, so we decided it about one year after the decision was made that we would do a report. We then started preparing to do it and then we did it. So that is the answer. From the start it took us about a year, and the reason we did the report then was because we were picking up indications that there were serious issues and so we wanted to respond to them.

Q85 Paul Flynn: Mr Mark Serwotka of the union said, “We opposed the privatisation of shared services because we did not believe it would deliver the savings we were promised and we have been proved right”. Now, Mr Serwotka has been giving those warnings for a long time, more than two years ago when it happened. Are you deaf to warnings from responsible people who happen to have a record of being right, rather than being bullied by Ministers who are doctrinaire and led by their political ideologies in order to haemorrhage public money at this terrible rate, and it is still going on? What are you doing about it? Eight months, when you were told beforehand it could not work.

Sir Amyas Morse: First of all, just to be clear, this would not have been an issue for us as far as the financial audit was concerned. We looked at this under value for money, which is where we select reports at my sole discretion. I select the subjects and I selected this one because it was apparent that something was happening. The audit had picked up that there were concerns about it. After all, it would be unreasonable if, as soon as something started, you assumed it was going wrong because it might or might not be. I am not entitled to comment on policy decisions but I am entitled to comment on value for money. So what I am essentially looking at is the efficiency of the arrangements.

Q86 Paul Flynn: There were two splendid civil servants in the Cabinet Office who warned that giving £3 million to Kids Company, three days before they collapsed, was a bad idea and they made a public declaration of this. When you looked at Francis Maude’s plan to privatise shared services, did you not think that you should have made a declaration saying, “This is not a good idea”?

Sir Amyas Morse: No. My job is not to tell people whether policy decisions are a good idea. That would be very presumptuous of me. I notice you quoted Kids Company and the information you have probably come from my report.

Q87 Paul Flynn: Good. But the civil service then did assert themselves against Ministers acting on their own private political interests rather than the interests of the taxpayers. Don't the civil servants have a duty to do that when a Minister is throwing away money like confetti?

Sir Amyas Morse: Do I think civil servants have a duty to challenge? Yes, they have. If they believe that something is poor value for money they should point that out, and if it is at an extreme level they should seek a letter of direction. In fact, just before the end of Kids Company—and in my view much too late—a letter of direction was sought. Our report made all that quite clear. So I do not think you can suggest that our report was other than pointing out that evidence.

Q88 Paul Flynn: On the question of the shared services and taking it out of the public area into private, Francis Maude seemed to be totally alone in believing it was going to work. Nobody else did. As I say, there was a debate on 8 July 2014 on this where nobody supported it. Everyone thought it was a stupid idea. Everyone thought it was going to lose money. Francis Maude sails away, retires, and cannot be touched any more. He is responsible for a loss of £504 million up until now. It is still going on. Should somebody not have sounded a warning, in order to curb the excesses of politically motivated Ministers who are dominated by their political fiction?

Sir Amyas Morse: None of those statements you make, sir, can I comment on, and nor is it competent for me to say what the motivations of Ministers were. What I look at are things that are or are not value for money and I try and determine whether that is—

Q89 Paul Flynn: Two years late, though.

Sir Amyas Morse: No, I have already explained the timescale so I shan't repeat myself.

Q90 Chair: Moving on. Returning to the question of the Government's annual accounts and their purpose. You have described the Government's annual accounts as, "A key element of the parliamentary cycle"—I am quoting you?

Sir Amyas Morse: That is right.

Q91 Chair: How do you justify that statement?

Sir Amyas Morse: I will give you the example that yesterday I signed the audit report on the whole of Government accounts. I think you can see issues there that you would not see through any other means and it is also true of the departmental accounts of major Departments. They are very informative documents. I grant you that they are complex and not as penetrable as they ought to be, but they are the point at which Government is obliged to put forth something on objective criteria giving a very coherent account of how they have used resources.

Q92 Chair: How can we make them more useful and more precisely tied to the information in the Spending Review and the estimates?

Sir Amyas Morse: I have some suggestions for that. I think there are two sides to it. I think the Treasury should be encouraged to continue with its streamlining review and take it quite a bit further. Debulking: there is a lot of padding in some of these documents and, without losing any of the key elements, I have talked about it could be much more direct. So we are very positive about that. We think that should be encouraged.

The Government is a complicated beast in terms of its finances. MPs could be better trained in understanding accounting, and we are willing to play a part in that. Just yesterday we were going through a training process with PAC members. We are happy to do that. Also I think MPs could get extracts from the accounts presented in a way that did not involve them in this extremely large document. Again, I will give you an example, if you will forgive me. This is a short guide to HM Customs and Excise that we prepare. What it tries to do is to tell you all of the things—not everything is derived from the financial accounts but many are, but it puts it in a short snapshot guide. I think a lot more effort could be made, not necessarily to change the formal accounts but to create downstream information that is useful to MPs and easily accessible. I have in mind—and I have been brought to think of this by your invitation, Chair, to come to the Committee—the idea of trying to create an online dashboard of information that we know about that MPs might find valuable in holding to account. Publicly available information but put in the form of all of these accounts that we are familiar with obviously. I think for MPs it is a pretty daunting task to say, “Well, why don’t you get that information straight from the accounts?” We could help to intermediarise that. So there is something for us to do as well, I believe, as something for the Treasury to do in streamlining the accounts.

Q93 Chair: Apart from the scrutiny units of the Treasury Select Committee, who do you think reads all this in the annual report and accounts of the Treasury?

Sir Amyas Morse: Apart obviously from me?

Chair: Yes. I am not saying that a lot of the information in these accounts is not vital and useful and so on and the process of generating it is, of course, part of the reason for having it, but isn’t there an awful lot of stuff in here that is just propaganda and padding rather than material?

Sir Amyas Morse: The piece that sets out to provide a narrative account is probably too full, and I think that part of the accounts that has deliberately been introduced to give a bit more human narrative to what the Department is trying to do could be throttled back quite a bit. On the other hand, there is interesting information in the accounts as well, which you will not get anywhere else, and it is really worth penetrating the accounts to get. I will give you an example. In signing off the whole of Government accounts yesterday, I was intrigued to see that we are still in a position where we are spending more money than is coming in by about £70 billion; quite interesting that. The place you will see that, without any presentation, is in the accounts. The reason for that is because they have to be prepared according to accounting conventions, not according to what is convenient to the message.

Q94 Chair: How useful would it be to separate what one might call statutory accounts, and maybe we should specify what should be in the Department’s statutory

accounts—I am using statutory in a vernacular term rather than a technical term—and then the commentary could be on different coloured pages, so it clear that some of this is narrative with tables and graphs and pretty stuff but the real meat is on the different coloured pages. Rather like we have in—

Sir Amyas Morse: That is where we think the Treasury is trying to go, to be honest, and therefore I think your guide encouraging us to go in that direction would only be very helpful.

Kate Mathers: If I may, I think the accounts themselves, the technical document, are the bedrock of that accountability cycle.

Q95 Chair: But separating the wheat from the chaff is quite—

Kate Mathers: For me I think the important thing is to be able to draw out the key messages that highly credible information is telling you. In our roles we will review very many sets of annual reports and accounts every year. We see good and bad practice and we do try to promote what we see as some of the good practice. Where we see annual reports working a little bit better is where Departments are able to summarise some of the key messages, visualise them with graphics, show trend analysis and make it easier to distil some of the information from the underlying accounts—which you know will be reliable as they are prepared in line with a recognised framework and they are audited—but the challenge is to bring out these messages. We do see some examples of where that is done better.

We still also see areas where there is a need for improvement as well. I think that is around some of the frankness of the reporting. It is a balanced assessment of where things are not just going well.

Q96 Chair: When you compare a major corporation's published accounts, when they come out, you can pick them up and you can discern a great deal from those standard accounts. Why is it so impossible to do the same in Whitehall?

Sir Amyas Morse: There are unavoidable differences with the things that are required to be in public accounts simply because of the nature of parliamentary votes and so forth, so it is different. But there are significant amounts of the same information in those accounts as would be in a corporate. The model is not that far apart, so you get information about what senior people in the Department are paid, you get information about pensions rights, you get information about liabilities, and you get information about the gap between the top person in the Department's pay and the bottom. There is a lot of information there. It is about making it penetrable, I think, to quite a large extent.

Kate Mathers: Very similar to a big corporate, you would have information about how the organisation is run, its corporate governance, and any issues around controls that they would have. So I think there is quite a rich source of material there, albeit, as Amyas said, quite difficult to penetrate that sometimes.

Q97 Chair: It is quite easy to make me feel stupid when I am looking at these accounts because I do not understand what they are intended to convey, or indeed what they are intended to conceal, which of course, being in politics, we are rather interested in. How can we make these accounts much more accessible and useful to Members of Parliament so

that they are a key element of the parliamentary cycle? I have to say that rather passes me by at the moment.

Sir Amyas Morse: If I risk repeating myself, I am sorry, but I think this is really important. The first way is to debulk the narrative elements and to say, “Cut out some of the padding here, please”. I am very much in favour of that, and the Treasury is going in that direction but we should hurry them up. The second I would say is, while recognising what is in those accounts needs not to change too much, I think in addition to that we can produce intermediate statements that are more accessible to MPs and I do think that will make a difference. That would make it easier. That is what I am recommending to MPs who are particularly interested. We are prepared to train them. For MPs that would just like to have more accessible information, we think it would be feasible to prepare summary statements. In fact, definitely it would be feasible to prepare summary statements and possibly a live, online dashboard saying what information is where. So some of it is about simplifying the accounts and some of it is about creating intermediate information that is more readily accessible to MPs.

Q98 Chair: How could stuff that appears in the annual accounts link to what the Government has announced in terms of policies?

Kate Mathers: The Government has recently introduced single departmental plans, which is a new initiative, which sets out their objectives, plans and manifesto commitments. I think it would be very interesting to see how those mature. It is the first set that we have seen this year. We will be doing a review of those in due course. I think it might be interesting for Members of Parliament to push on that to make sure that Government is held to account against some of those stated objectives. I think there is an opportunity there to link the money reported in the accounts to what is being delivered by way of public services and the stated objectives there.

Q99 Ronnie Cowan: The Chair has very kindly guided you through many of my questions already, so we should be able to go through this in rapid fire. The Campaign for Plain English suggested that the annual accounts and annual report are badly written. Your response to that?

Sir Amyas Morse: Well, some are badly written, yes.

Q100 Ronnie Cowan: Engaging the public with these reports, are they provided—and again we have touched on this—in a fashion that would engage the members of the public, service users?

Sir Amyas Morse: As I have said, some of that could be writing the accounts more simply, and some of it can be by doing some intermediate statements that are designed to be a lot more accessible. I just do not think you can get it all done by changing the accounts.

Q101 Ronnie Cowan: How many press inquiries or MP inquiries do you get?

Sir Amyas Morse: Quite a fair amount. Journalists look at the accounts quite closely. MPs, it depends. MPs who are interested in particular areas know where to look in accounts for them. You find that MPs who specialise in asking questions in a particular area find out, or their researchers find out, where to look in the accounts for that type of information. For example, MPs who are interested in termination packages for senior people or things of

that sort, which is one of the areas I observed, they know where to hone in. So it tends to be special interest and/or journalists.

Kate Mathers: Sometimes you also see accounts being picked up as part of different Select Committee reviews and to particular areas of focus. So they do get picked up and used by Committees in those circumstances as well.

Q102 Ronnie Cowan: In the past the NAO did publish a summary report on annual accounts. Have they stopped this practice?

Kate Mathers: I wonder if you are referring to the C&AG's previous general report that was published a number of years ago.

Q103 Ronnie Cowan: Is there any qualification of good practice?

Kate Mathers: Of late we have started publishing the departmental overview reports, which is the document that we just referred to. We think hopefully that is a more insightful piece with more focus to that and it is able to go into slightly more depth about some of the issues that particular Departments are facing as well. It draws out insights from the financial statements, gleans information from different reports that we have done in those organisations over the course of the year. It brings it together in a summary form that we hope is a little more accessible than trying to go to all those source documents and bring it together yourself.

Q104 Ronnie Cowan: Without trivialising it, is it fair to say it is like a dummies guide for MPs?

Sir Amyas Morse: I don't think it is anything to do with being dumb. It is a question of how much time do you want to invest getting information out. Given we know what most information is, we might as well get it out for you.

Q105 Ronnie Cowan: I am not objecting to that concept at all. For me to wade through these reports here, if I can get it presented to me in a fashion that is easier to understand, then absolutely.

Kate Mathers: I think we are quite well placed to do that. We have started to do that to some extent already through various publications that we do, whether that is departmental overviews—we have published other summary documents in the past. I think being able to summarise those key points in a summary way, so that it helps Members of Parliament understand what those key issues are without having to go through the full range of the source documents.

Q106 Kelvin Hopkins: I have always been a fan of the NAO, the Comptroller and Auditor General and the PAC, but I want them to be our creature and not too soft on Government. If the NAO and you are described as a Rottweiler, I think that would be a good thing because you are supposed to represent our interests in holding the Executive to account. When I become unhappy is when I think there is a tendency to be soft. It might be the chair of the PAC, it might be the PAC, it might be the NAO, it might be the Comptroller, I don't know, but if there is a movement towards being a bit soft on Government that is when I get

worried and that is why I would be unhappy as an MP. Do you think that is a fair point to make?

Sir Amyas Morse: I think it is a perfectly understandable concern. I appreciate the novelty of anybody suggesting that I am someone who meets that description because that is not the feedback I have had from most people, I have to tell you. I am not in any doubt at all about where my priorities lie. I am an officer of Parliament. The NAO exists because of Parliament. We exist to primarily allow Parliament to hold the Executive to account. That is what we were brought into existence for. We have had other duties added. I am very careful, and let me give you an example of the discussion when the decision was made that the Audit Commission would wind up and there would be private sector auditors in local government. It was quite clear to me that, if we got involved in doing local audits, we would lose our independence and we would lose our direct relationship with Parliament, or that might be at threat. That is why I very much did not go in that direction.

So I am constantly trying to defend our ability to be independent and to be focused on Parliament, and not just to PAC either. In this calendar year, I have met the chair of every single Select Committee. Why? Because I want to understand what we can do to help them do their job as efficiently as possible: what can I offer them that they will find useful in the information we have available? So we take that commitment, it is our primary driving purpose, I completely agree with that, and we do not take prisoners if there are issues to be put out there.

But on the other hand, I would say there is a risk of being simple in your judgments as well. If something is simply complex and very difficult and no one would find it easy, anyone running a major technology project will tell you it will fall over from time to time, it will not always run perfectly—so if I take a posture that says, “It should always be right first time”, I am being unreasonable rather than holding to account—therefore there is a balance always to be struck there.

Q107 Kelvin Hopkins: There are some scandalous areas where Government has lost vast amounts of public money. PFI was a classic. I know the NAO did a report on PFI and it was regularly criticised. It is still costing billions to the public purse. Then there was of course railway privatisation and we saw the pushing back of the East Coast Main Line into the private sector, when it made a substantial profit for the Treasury during its five years in public ownership. More recently we have seen HS2, where costs are ballooning and yet the Government seems wilful in driving it forward when it should be cancelled and that money spent more sensibly elsewhere. All of those things, I would have thought the NAO and your good self and the PAC ought to be having a go at them on all of them.

Sir Amyas Morse: On having a go, let me say this: we have already done one report on HS2. We report very early, and the reason we report early nowadays is because if you start something badly, it will end badly; that is common sense. So we examine the way things are set up and the way they are planned and then we monitor through. Our next report on HS2 is going to come out in the next month or so, so we follow along from the start to the finish. Most of the things you mentioned, we have done a lot of work. We do 60 reports a year on value for money and we do follow up on things that are happening in any of these major projects or programmes.

Q108 Kelvin Hopkins: About a dozen years ago under the Blair Government, there was a hint at one point that they wanted to legislate to bring you under the wing of the Treasury, which I thought would be appalling. It disappeared, because they realised there was going to be national opposition within Parliament to that, and quite rightly so. But Governments have abandoned not your organisation, but the Audit Commission, which used to audit public accounts in local authorities and that sort of thing. That has effectively been privatised. Governments are not happy about being audited. Are you going to continue to fight your corner and stand up for your independence?

Sir Amyas Morse: I think on average every year and a half or so there is a bit of a push to say, “We do not like what you are doing” and you have to be robust. This is not a job for the fainthearted, you have to be robust and you have to push back. I am robust and I do not lose sleep over it at all. That is just the job. You have to be prepared to do that and I am very ably supported by the Public Accounts Commission, chaired by Sir Edward Leigh, as you know. I recognise that that is part of my job in order to serve Parliament properly.

Q109 Mr David Jones: The ICA, in evidence to the Committee, has said that annual accounts should be used in making decisions within Departments, and it gives an example: it says that, “If Treasury officials were to use the whole of Government accounts as a key tool to influence fiscal policy alongside other sources of information, such as ONS statistics, we expect the outcome would be a tendency for increased scrutiny of departmental accounts to ripple down from the top”. To what extent are annual accounts used by Departments to manage their work?

Sir Amyas Morse: They are probably not used to manage their work as such, because generally annual accounts are produced ex post facto, that is in the nature of things, and there is interim auditing, but mostly their purpose is to give a record of how resources have been used and how the Department has been run. Normally to manage the activity, that is management accounts, which is more in the realms of what I mentioned or what Ms Mathers mentioned earlier, which is the single departmental plan and the accounts around that. So management accounts are very much the comparison of the actual performance against what was planned and budgeted. That is the mechanism by which Departments can and should run their activities and control their activities during the year.

Q110 Mr David Jones: One of the other points the ICA make in their evidence to us is that whole of Government accounts should be published sooner, after the year end, for the information to be used effectively for decision-making. How would you respond to that?

Sir Amyas Morse: I am a great fan of whole of Government accounts and I think they probably show you the most complete picture of all of the Government finances that is available anywhere and I recommend them to you. Yes, they could be done faster, but remember that they have to be done after all of the Departments’ accounts are available so they can be consolidated, so there is a factor as to why they are relatively late.

Q111 Mr David Jones: Do you think they could be produced sooner after the year end?

Sir Amyas Morse: Probably, but that would need more resource. Not for us, but for the Treasury, and remember this is being done in the Treasury and the Treasury is quite stretched as to resource.

Kate Mathers: If I could just come back to your point about who makes use of that in the ICAEW submission there, I think they are referring to because the WGA does give that quite unique, comprehensive overview of the whole portfolio of Government's assets, its liabilities, and Government is starting to use some of that information to help inform its decisions around that. You might take estates management as part of that, it gives you that position of the land and buildings, everything that is tied up within that and you are able to make some decisions about rationalisation about that when you see that—the complete, comprehensive view. It gives you that complete view of long-term pension liabilities, all those kind of things are brought into quite a clear perspective through the whole of Government accounts.

Q112 Mr David Jones: Do your value for money teams find the annual accounts useful in connection with their work?

Sir Amyas Morse: Yes, they do, because what you get out of the annual accounts is a picture of the control environment, how the activities of the Department are controlled as a whole. When you are looking in value for money terms at a particular project or programme or activity, having that context is really important to you. If you find there is a breakdown or poor control in some part of the Department and you are doing a study, you want to take that into account very much in your value for money work. So yes, we get a lot out of it.

Q113 Mr David Jones: What would make annual accounts more useful to your analysts? One of the points of course made by the ICA was being produced more quickly, which you tend to agree with, but are there any other aspects do you think could be improved?

Sir Amyas Morse: What would make annual accounts more useful would be if Departments used information to run themselves more at the management accounts level—if they became more sophisticated in the way they run themselves and the way they then make supporting evidence decisions—that would all come together into a more informative set of annual accounts. The annual accounts can only reflect the level of sophistication that is there in the Department, in the way they run themselves. They do that perfectly faithfully, but they would be better if Departments—there have been a series of attempts to reform management information, of which the single departmental plan is only the latest.

I still think people have not bought off on the idea of using information to make decisions in the way I would like them to. Virtually every report we write talks about this, and therefore we really feel that stronger use of information rather than what I will call a more discursive method of decision-making would tend to drive better value for money, better value for the use of the taxpayers' pound, and that would also drive up into better, clearer annual accounts.

Q114 Mr David Jones: This is advice you are giving repeatedly, it would appear. To what extent has that advice been heeded?

Sir Amyas Morse: To some extent, but not as much as I would like. I see this as a long-term campaign goal of my being in this job, to drive up the quality of management practice. I am seeing some good signs, by the way, because for the first time in

Departments we have different towers of professionalism that have been set up by John Manzoni in the Cabinet Office, so at the start that is extremely encouraging to see. It has quite a long way to go, but we are starting to see a more professional approach and we need to encourage that.

Q115 Mr David Jones: What would you say are the areas of resistance then? It is simply inertia, the way things have always been done or what?

Sir Amyas Morse: That is quite a powerful thing. If you have people who generally do not have particularly high levels of skill in formal management or finance disciplines, they tend to do things the way they have always been done, because that is the way you avoid mistakes or you have a more predictable results, by repeating it. It is not just bloody-mindedness; it is how you manage if you have a Department full of generalists. I think as the skill levels go up, Departments will move progressively away from that. I am seeing them starting to do it, but there is a long way to go.

Q116 Mr David Jones: Would you say that annual accounts are useful in comparing the performance of organisations?

Sir Amyas Morse: Yes.

Q117 Mr David Jones: What examples can you give of that?

Sir Amyas Morse: Interestingly, I will give you an example of comparing the Department for Transport and the Ministry of Defence. You can see how they are running. They both run very large projects, so trying to compare and understand both in the annual accounts and through our value for money studies whether they are learning from each other, whether they are both using best practice. Given that they are both running major programmes, how well do they learn from each other? Can you see comparisons about how they are set up? That can be done using management accounts and more detailed studies, so I think that sort of comparison is really valuable.

Q118 Mr David Jones: Has that exercise been done?

Sir Amyas Morse: Yes.

Q119 Mr David Jones: Are the Departments receptive to it, do you find?

Sir Amyas Morse: They are quite demanding about it. They are interested in comparing with each other. They find that a way of helping them to find how to improve. We have been very pleasantly surprised by how positive their reaction to that is.

Kate Mathers: We have quite a big deal of work on just looking at cross-Government issues, where you see there are sort of common concerns raised in each Department, and there is, as the C&AG was saying, a great appetite among Departments to understand how things are done elsewhere and where there is areas for them to improve as well.

Q120 Mr David Jones: For the assistance of the Committee, can I ask you a couple of rather basic questions? What is the difference between programme and administrative spend?

Kate Mathers: I suppose administrative spend is kind of the costs of running something, so your back office functions and so forth. The programme spend is more the frontline service delivery costs attached to the actual delivery of the public services.

Q121 Mr David Jones: Can you tell us the difference between DEL and AME? That always perplexed me.

Kate Mathers: So this relates to the Treasury's spending controls, that Departments are controlled against these totals that are voted annually by Parliament, so the Department expenditure limit is more straightforward, planned expenditure that the Department incurred during the course of the year, so staff costs and so on. Annually managed expenditure is more demand-led potentially, so that would be where you would have the cost of the benefits and so on, they would be counted as annually managed expenditure. That is an example of that.

Q122 Mr David Jones: They can be more volatile, obviously, and to what extent would you say that these distinctions are useful in helping to understand a Department's spending?

Kate Mathers: I think to a degree they are useful, because it puts the expenditure into two categories, ones that should be able to be forecast with a degree of certainty and able to manage those. Were those costs in the annually managed expenditure, they do have a degree of volatility, they can be demand-led, so there needs to be a different control framework around those.

Sir Amyas Morse: Can I just add something to that though? They are pieces of apparatus designed to help in controlling annual spend—and the one other suggestion I wanted to make is that the accounts are prepared on an accruals basis—but still I would say the strong force in public finance is the annual expenditure control. Now, the problem is that a large amount of central government expenditure is on projects and programmes that last several years, so cutting things into annual slices is quite destructive of value and we still do not really use accruals accounting and an accruals approach to management properly. We are still, in my view, largely dominated by controlling against the excess vote, against the parliamentary vote, and I think there is a real space for improvement and reform there. It would make a very big difference to begin to examine that and if the Committee felt inclined to recommend a review of whether the relative stress put on those two could change more in the direction of an accrued and a longer term accruals approach, I think it would be a real step forward.

I will give you the one example where a concession is being given at the moment to HS2, where the Treasury has indicated that they are prepared to see an element of voted expenditure carrying forward between one year and another, about 10%, I think, of what was voted in one year could be carried forward to another. That is seen as an unusual concession. If you are going to run these things properly, you should be looking at the whole life of the project. It is like cutting a worm into pieces, it is not an efficient way of running things.

Q123 Mr David Jones: Presumably the Treasury must have had it suggested to it though?

Sir Amyas Morse: By me, yes.

Q124 Mr David Jones: I thought that that might be the case. What response have you received?

Sir Amyas Morse: Sympathetic, but not great movement. Some movement though, as I have just said to you, and do not underestimate how influenced they are by Parliament. If you choose to put something like that to them, they will listen to you.

Q125 Mr David Jones: If they are sympathetic, why are they not doing more to take up the suggestion?

Sir Amyas Morse: Because in their DNA, very deeply established, is annual control.

Q126 Mr David Jones: So it is a cultural thing?

Sir Amyas Morse: It is cultural and managing risk. If your preoccupation is sitting at the centre and controlling how much is spent, what you want to do is to make absolutely sure you have a grip on that. I agree that that is quite important; not as important as it is in the system now though, in my view. I think we are paying a price for it.

Q127 Chair: What do we learn when a Department transfers expenditure between headings, say between programme and administrative spend, and what do you do about it?

Kate Mathers: There is a formal process to doing that between the different categories and the Department would need to approach the Treasury and seek its authorisation to do that.

Q128 Chair: What about seeking your authorisation to do it? Surely if something is administrative spend, it should be audited as administrative spend. How often does NAO say, “No, that was not programme spend, that was administrative spend,” or vice versa?

Kate Mathers: I suppose there is two ways of looking at it. One is about changes to the amounts available in those two budgets and that is where the Department would need to approach the Treasury to agree any changes to its budget amounts. It might do that through the supplementary estimates process, where plans change during the year and changes need to be made. Then of course when the Department presents its accounts to be audited, it will have analysed its expenditure between those two different types and our audit teams will consider that as part of their audit of the annual account.

Q129 Chair: How often does Parliament refuse to allow such a transfer?

Kate Mathers: We would need to ask the Treasury about that.

Sir Amyas Morse: Let me answer that in a different way. If there was an agreed transfer with the Treasury, it is visible, Parliament could see it, they could review it in a supplementary estimate. Is it often challenged? No is the answer to that. On the other hand, if we as auditors saw something that had not been through that formal process, but where the Department was trying to present one thing as if it was another, we would examine it very closely and if we believed it was not supported, we would strike at it.

Q130 Chair: But basically because Parliament signs it off, there is nothing you can criticise, is there, because it has been signed off by Parliament?

Sir Amyas Morse: No, that is right; you cannot, because the people who should have been challenging it were Parliament and not us.

Q131 Chair: But Parliament has no idea that the accounts are being fiddled in this way until long after the event.

Sir Amyas Morse: It does not follow that they have been fiddled, of course. If it is a visible, publicly-acknowledged transfer from one category to another, I do not think you could categorise that as a fiddle.

Q132 Chair: Moving on, what were the main messages for policy-makers arising from the annual accounts in 2014-15?

Sir Amyas Morse: It is getting quite tight is the message. It is getting quite tight and you can see that by the fact that a lot of the Departments are finding it difficult to stay within their annual expenditure limits. You are beginning to see that happening and it will happen even more this year. So the pressures on spending are having a considerable effect, that at one level, and then at another level—

Q133 Chair: Is that only evident from the accounts?

Sir Amyas Morse: Yes.

Chair: From the annual published accounts? That is only evident from the annual published accounts?

Sir Amyas Morse: It is evidenced from those accounts, and in this year, in one of the Departments at least, it is quite likely that I will explicitly comment on it in my report in those accounts.

Q134 Chair: But how is evident from the accounts in a way that it isn't already evident within Government Departments?

Sir Amyas Morse: Because you can see the expenditure totals, and right up against the authorised totals. You cannot see that anywhere else.

Kate Mathers: So when we talk about the accounts being a key part of the parliamentary accountability cycle, that is where the accounts will bring all that together, so reported in the statement of parliamentary supply, which is a key part of the annual reports and accounts. That is part of the parliamentary accountability reporting and it will tell you where the Department has landed against the control totals that have been authorised by Parliament. Of course if the Department exceeds any of those totals, it means it is unauthorised expenditure, Parliament has not approved, and the C&AG will qualify his audit opinion on the irregularity opinion, because that expenditure has been irregular.

Q135 Chair: But apart from reporting where control totals have been achieved or not achieved, where do the accounts show that the Government have achieved their policy objectives or not achieved their policy objectives?

Kate Mathers: That is where you would expect to see part of that, in the performance statement in the front half of the annual report and accounts, and some of the measures that the Treasury have introduced through the streamlining project, and it was introduced

for the first time in this account cycle, which is the 2015-16 accounts, the aim is that the performance report is a clearer setting out of what has been achieved by the Department. We wait to see. We are looking at these for the first time at the moment, but I think that is an area where there is potential for improvement there. As we have mentioned earlier as well, we also have the single departmental plans as well, which need to be linked into that.

Q136 Chair: How does the NAO audit the performance statement?

Sir Amyas Morse: To be clear, what we do with the performance statements, we are not exactly auditing them. What we do is we examine them to see if they are consistent with the accounts, so if there was something in the performance statement that was quite obviously misleading we would say, “Unless you change that, I will make an explicit comment on it in my report”. I will point out that it is misleading.

Q137 Chair: How useful is the performance statement if that is the only compliance requirement?

Sir Amyas Morse: Why shouldn't they be useful? That simply means that if you put in something that is misleading, I will blow the whistle on it. Other than that, if it is written more clearly and more pointedly, which is where the Treasury is trying to take it, I think it will be quite useful. It will become progressively more useful.

Q138 Chair: But if the performance statement is claiming an outcome that is extraneous from the financial accounts, you do not audit that?

Sir Amyas Morse: It depends. If it was something that was based in talking about the use of resources, then we would examine that if we thought it was misleading and we would comment on it if it was misleading. I do not want to take it further than it is, but that is how far we go.

Q139 Chair: Can you give an example of where the accounts, the actual annual accounts publication, have contributed towards a debate about policy?

Sir Amyas Morse: Since I do not get involved in debates about policy, no, I cannot. It is not my remit to look at policy.

Chair: I think Parliament feels the same way.

Sir Amyas Morse: That may be true; I cannot say.

Q140 Gerald Jones: Professor Prowle says that private and public users of annual accounts have different sort of demands from the accounts. Why does the NAO believe that the International Financial Reporting Systems developed for the private sector are suitable for the public sector?

Kate Mathers: I think IFRS statements are based on a recognised general accountancy practice framework, they are accruals-based. I think they present quite a transparent picture of the Government's financial position, its financial performance and I think the fact that they are prepared to IFRS standards gives them a good deal of credibility.

Sir Amyas Morse: That is right. It does not look like something that Government has just put together for itself. If they are prepared to put themselves through the same disciplines

as the private sector, the advantage is it gives it more credibility. It does not mean that it should be clearer and more concise, but it just gives it more credibility, perhaps to taxpayers who might want to see that.

Q141 Gerald Jones: You think it is suitable in both scenarios, okay. What examples can you give where the NAO has used annual accounts to make comparisons, useful comparisons, between the private and public sector?

Sir Amyas Morse: Between private and public sector? How we would do that is if we were looking at some of the key ratios that are commonly used, if you were saying to me, “If I look at an engineering company, would I compare some of the key ratios in an engineering company with, let us say, the MoD’s accounts for their procurement and equipment subsidiary or section, DENS?” I would use it there, but only in those sorts of circumstances. I would not say we spend a lot of time comparing private and public sector accounts.

Kate Mathers: But we would certainly see it as part of our audit where Government was carrying out that activity that was related to activities carried out in the private sector, we would certainly draw on that information to help us understand the work that we need to do for the audit, look at how that was presented, can we see some consistency there, so we would use it in that way.

Q142 Gerald Jones: Could you explain what is meant by “materiality by value”?

Sir Amyas Morse: Go ahead.

Kate Mathers: So when we are auditing the accounts, we audit to what we call a level of materiality. That is a concept that recognises that there may be a number of different versions of the accounts that can present a true and fair view, so on a big departmental account, if some of the numbers are out by a certain amount, you would not reach a different conclusion on your assessment of the organisation’s financial performance or its financial position. So a matter is material because if it was in error or it had been omitted, it would cause a reader of the accounts to reach a different conclusion on the organisation’s financial performance or position. If there is material error in the accounts that is not corrected, then the C&AG will qualify his opinion, because in this view, they will not present a true and fair view, so the accounts would not be reliable.

Q143 Gerald Jones: In the private sector, obviously linked to that, many firms now disclose what they use as their materiality in their audit certificate. I understand that the NAO does not do that. Why is that?

Kate Mathers: In the private sector, what has been adopted there is the enhanced auditor’s reporting and it was a requirement for companies that report under the UK corporate governance code there. So the NAO has done some reports of this nature where public bodies that we audit adopt that code or if their company is required to comply with that code. We have piloted that and it is something we are considering currently as we look to develop the way that we report information alongside the accounts and develop the C&AG’s audit reports.

Sir Amyas Morse: It is not something we are particularly against, but it is something that is starting to develop more and more.

Gerald Jones: It is just not practice at the moment.

Q144 Chair: Wouldn't that be a policy issue, to just report the materiality by value figure for each Department?

Sir Amyas Morse: It is not a policy issue, it is simply agreeing with the Treasury whether we need to do that in the particular accounts, but we do not—

Q145 Chair: What kind of figure is it?

Kate Mathers: It is always based on typical benchmarks, whether you are in the commercial world or the public sector, you will use a percentage. If you are in the commercial world, it might be a percentage of profit, so anywhere between—

Chair: So what is it in—

Kate Mathers: We would usually work on a benchmark of between 0.5% up to 2% of gross expenditure and that is by value.

Q146 Chair: In DWP, that would be a few billion pounds?

Kate Mathers: Potentially, but you need to look at materiality in a number of different ways as well. It is not simply a question of by value; we also look at the nature of what the error may be. There is quite a lot of judgment involved in whether a matter is material, so the starting point might be a simple question of—

Q147 Chair: What does this mean? It means you do not audit numbers below a certain figure.

Sir Amyas Morse: No, it does not mean that. It just means that below a certain figure, if you find errors—we audit all the numbers, but the point is below a certain figure, it might not prevent you from thinking that the accounts as a whole present a reasonable picture. No, if you said—

Q148 Chair: So £3 million for Kids Company is not something we worry about?

Sir Amyas Morse: No, we most certainly do worry about it and we might have some other reason for qualifying, since we have the choice of qualifying on irregularity as well, and that does not have the same materiality consideration. But take the Department of Health, if you found there was a £50,000 error in the Department of Health's accounts, you are not going to qualify the whole Department of Health's accounts on it, because it would be ridiculous. It just does not disturb your overall view of the accounts.

Q149 Chair: Does that mean you do not bother to report immaterial errors?

Sir Amyas Morse: No, we would discuss all of them with management and we would expect them—

Q150 Chair: Report to Parliament?

Sir Amyas Morse: No, not normally, unless we thought they were indicative of some other issue. If we thought there were such errors and they were indicative of something else that was seriously wrong, we would probably do a special examination of it.

Kate Mathers: Typically as part of the audit—so as part of when we complete the audit—under auditing standards we are required to report the errors that we have found during the course of the audit to the organisation's audit committee, to those charged with governance, so that will be the accounting officer, the chair of the audit committee and so on.

Q151 Chair: Forgive me, just before we go on, you justified using the IFRS reporting standards as important for the credibility with taxpayers. What evidence do you have that this improves the credibility of the Government's accounts?

Sir Amyas Morse: The evidence I have is it is the only game in town. You need to prepare the accounts on generally accepted principles. That is true in the private sector or the public sector.

Q152 Chair: Even if they are not wholly appropriate for the public sector?

Kate Mathers: The IFRS standards that are adopted do have some interpretations and adaptations made to them to make sure that they are more appropriate for the public sector. Obviously there are some differences in practice between the commercial world and the public sector. Those interpretations and adaptations are considered and advised to the Treasury by the Financial Reporting Advisory Board, which is a panel of quite a diverse membership, from practitioners, from institutes, accountancy firms, a Member of Parliament attends those, the National Audit Office attends. It is independently chaired and that provides independent advice to the Treasury on where adaptations will be made to IFRS standards there.

Q153 Mr David Jones: You suggested in your 2016 confiscation orders report that annual accounts could include cost and performance data. Should such data be included in annual reports for all programmes over a certain size or that are controversial?

Sir Amyas Morse: I certainly think it would give more information in interpreting the accounts, yes, we do think that. Whether it should be all over a certain size, I think a formulation that says if you are running a very major programme, it is quite material to understanding what is happening in the Department, to have a narrative about it. Rather than trying to say it should just be over a certain size, let me say it like that: if you are running something in a Department where you have one or two very major projects and programmes, it is good that they are identified in some way and some description given of them so people reading the accounts can tell what is going on in the Department.

Q154 Mr David Jones: If it was not simply the size of the programme, how would you assess a programme that was suitable for this sort of accounting treatment?

Sir Amyas Morse: I think it would be considerations on size and significance to the Department.

Q155 Mr David Jones: The Taxpayers' Alliance suggested that annual accounts should be based upon the services delivered to taxpayers and not upon the internal divisions of Departments. How would you respond to that suggestion?

Sir Amyas Morse: I have some sympathy for it, but I think it would be quite difficult to accomplish by, so to speak, restructuring the whole of the accounts. I think it might be possible to provide better information about services to taxpayers as part of the business commentary in the accounts. That would make more sense to me.

Q156 Mr David Jones: Professor John McEldowney suggested to the Procedure Committee that major projects such as Trident should have their own annual accounts. What is your view on that?

Sir Amyas Morse: That could be right, but you would need to know why. In other words, it is a huge project and it is going to be of great interest to Parliament to understand how it proceeds. It has a lot of top-secret classification around it, so there is going to have to be a very specific approach to how you provide transparent reporting on what is going on, rather than just say, "Yes, it should have a set of annual accounts". We, the NAO, will be doing a series of reports on the progress of that project and we are discussing with the MoD how to do that in a way that is informative but also preserves the absolutely correct requirements for secrecy.

Q157 Chair: I am bound to say I am not full of hope that we are going to make annual accounts much more useful to Parliament, albeit they are essential for the good running of Government. What recommendations do you think we should make to improve the usability and accessibility of annual accounts to the public and MPs?

Sir Amyas Morse: First, I think you should recommend that the Treasury streamlining of projects goes much further and faster. That would satisfy much clearer narrative elements in the accounts, so the activity report and so forth will be expressed in much clearer terms.

Q158 Chair: Have you formally responded to that?

Kate Mathers: We have been part of the working group originally on the streamlining project there and we encourage Departments to enhance their annual reporting. It is an approach of a sort of red-pen exercise, encouraging Departments to focus on the key issues in their accounts, whether that is in the narrative sections or in the financial statements sections, because sometimes organisations will follow a pro forma account, whether or not those issues are significant to their accounts. That, quite frankly, makes it difficult to see the wood for the trees sometimes. I think there is quite a lot that can be done on a practical level to help navigate through some of those disclosures. As you say, the accounts are important for the good running of Government and so forth.

Q159 Chair: We might pick your brains a bit further about that to make sure we get our recommendation correct. What else would improve the—

Sir Amyas Morse: I have put in my plea for making more of a reality of the accruals aspect of accounting. That would improve the actual outcomes of a lot of projects by not being constantly under pressure or as heavily under pressure from annualised spend as they are now and I believe strongly in that.

Q160 Chair: That is strengthening the discipline around the DEL and AME approach about that administrative spend?

Sir Amyas Morse: Yes, that is true. I declare a certain amount of self-interest in asserting that in my recommendations, Chair. Then I think that there is a lot that can be done to make the information that is in the accounts more accessible to MPs. I will repeat what I have said there: I believe that we could offer—we, the NAO, and I feel responsible for doing this—more training to MPs. We are doing training to MPs now in understanding finance and the accounts.

Secondly, we can prepare a dashboard type of live document that contains things that are in the public domain that we know MPs are interested in so they do not have to wade their way through the accounts in order to get them. I think that would be a good thing for us to do. Basically, in preparing for this Committee, it occurred to me, yes, that would be a good next step in making that available. So I think those are our suggestions. As regards management accounts—

Chair: We are coming to that.

Sir Amyas Morse: I will wait.

Q161 Ronnie Cowan: In an interview in the *Financial Times* in March 2015, where the Government were embarking on their next range of swathing austerity cuts to harm the poorest, more vulnerable in our society, you are reported as saying, “If you are going to do radical surgery, it would nice if you knew where the heart was. You are slightly more likely not to stick a knife into it by mistake”. Do you stand by that?

Sir Amyas Morse: That was an accurate report. I gave that interview.

Ronnie Cowan: It is a lovely quote, by the way.

Sir Amyas Morse: No, I gave that interview to the *Financial Times*.

Q162 Ronnie Cowan: Can you expand on that comment?

Sir Amyas Morse: Certainly. What I was talking about—and if you will forgive me for a second, just to give you a bit of background—I was talking about the relationship between social care and primary healthcare and the crucial role they play in maintaining people in the community and the fact that they are paid for out of different budgets, okay? Now, if those two primary care areas are not working properly, what happens is that you have people tumbling down into acute and you find people being inappropriately admitted to acute hospital beds, turning up in A&E with things they should be being looked after further up that structure. Now, in order therefore to make the primary level work, you have to make sure—social care is funded by local government. In assuming that social care will play a bigger role and will take up the slack it needs to take up, and by giving more people rights to have social care assessments, you are putting quite considerable burdens on local government without knowing whether, as you are reducing the funding available to them, they can come up with that care. That was what I was talking about, the need to understand do they have the resources to play the part that they are called upon under statute to play?

Q163 Ronnie Cowan: But if they are cutting the resource, then the answer has to be no.

Sir Amyas Morse: That was the question I was asking at least: let me just put it like that. So you asked me what it was about. It was about the fact that if you are assuming things about how a big complex system that is so important to so many people is going to work, you should enquire in a lot more detail about the affordability of one of the key legs of it. That was my point.

Q164 Ronnie Cowan: This optimism bias that has been mentioned, is that a factor in this as well?

Sir Amyas Morse: I do find there is a lot of optimism bias in Government, that is to say things are presented as being highly probable, which are in fact only likely to happen if things go really well. That is quite a frequent feature of the start position on projects and programmes that I find myself examining and I try to intervene to say, “Can we just put it at the mid-point, rather than at this sunny side up position?” That is something I try to influence, because if you build in a very optimistic goal as if it was normal, you will soon find the project is starting to look as if it is failing. It may not be failing, but you have everything wrong, all the measures are in the wrong place and you start doing panic measures as a result. So it is important to have a hard-headed, realistic view of how you run something, not just something that happens to fit with what you want to announce at a particular point in time.

Q165 Chair: Why have management accounts of the public sector been so historically poor?

Sir Amyas Morse: I do not think they are sufficiently used or cared about by people in the public sector. You get the quality of accounts that you want. This is in the control of the Departments. There have been about five or six different attempts to reform management accounting all of which—the ones in my time in this job—I have tried to support very vigorously. None of them have been wrong but they only can work if people run themselves using the management information. Management accounts exist to allow the Department to run itself well, but you have to be willing to use that information to make decisions on it and to let it drive the Department to a substantial extent.

Q166 Chair: In your report “Transforming contract management” in 2014 you commented that some civil servants were unwilling to demand financial information from working level teams. Why do you think this is so?

Sir Amyas Morse: Sometimes they do not find having awkward evidence all that desirable.

Q167 Chair: Why?

Sir Amyas Morse: It might force them to make decisions on resource and other things that they do not particularly want to make. I do not find there is a great appetite for understanding when things are likely to go long.

Q168 Chair: What is the consequence of that?

Sir Amyas Morse: Generally, the consequence is lost value to the public sector.

Q169 Chair: How should we address that?

Sir Amyas Morse: We should address it by making sure that Departments value accurate estimation and accurate planning. I am hoping we will see that coming through the single departmental plans.

Q170 Chair: If the demand is not coming from Ministers, or Permanent Secretaries, or senior level civil servants where is it going to come from?

Sir Amyas Morse: It is beginning to come from those places. It is also coming from what I mentioned earlier, the creation of higher levels of professionalism in the Departments.

Q171 Chair: That will not work, will it? Unless the governance comes from the top it will not work.

Sir Amyas Morse: You may find it works better than that. I mentioned positively the Chief Executive of Government, John Manzoni. Bringing in people with real credible business experience at the top of Government, and doing that successfully, begins to create an atmosphere where information-led, accurate, professional management begins to be valued.

Q172 Chair: Are you talking about bringing in senior civil servants from business, or are you talking about the non-executive directors?

Sir Amyas Morse: We have got both. We have an enhanced quality of non-executive directors and we have got senior civil servants who have come in from business. They tend to support each other.

Q173 Chair: Would it not be better if the non-executive directors, who are basically only advisers, had some fiduciary powers?

Sir Amyas Morse: Yes, it would.

Q174 Chair: What is your view of the skills of Government with respect to financial modelling and forecasting?

Sir Amyas Morse: Government is a huge space. The answer to that is the Government needs to continue to improve. It is improving but it has got a long way to go in some areas. In some areas some Departments have developed quite sophisticated modelling skills. I would take the Department of Transport as an example of that. You learn from having a tough time. They have had a series of major projects. They have had to get better at modelling and they have done.

Q175 Chair: How do we improve that skill across other parts of Government?

Sir Amyas Morse: By encouraging sharing between Departments. That is what we try to do. The reason we have set our office up into clusters—we have MOD, Department of Transport and Department of Energy in one cluster, with the same people working on

those three—is because they are all comparable. They all run huge engineering type projects. We are trying to create synergy between them and transfer learning. That is what we are trying to do.

Q176 Chair: In your experience, how well do management accounts link up outcomes and finances within Government?

Sir Amyas Morse: Not as well as they should do, that is for sure.

Q177 Chair: We were very attracted to the MINIS system championed by Michael Heseltine that sought to do this explicitly. We have just heard from Sir Ian Cheshire who has said, in terms, that it is the departmental business plans that fulfil this role. The information that is publicly available via departmental business plans is remarkably “ungranular” and “unlinear”, if you like, between spending outcomes and programmes. How confident are you that departments have that kind of linear, granular information?

Sir Amyas Morse: They have much more detailed plans that they are not publishing.

Q178 Chair: Should they be published?

Sir Amyas Morse: I have seen some of them. They are quite good and they have got the capacity to get better. My advice is to build on the single departmental plan and put your pressure on there, rather than going to some separate system. They will not do it and you will lose the influence you should have in pushing them to do a better job on the single Department plans.

Q179 Chair: Most MPs are more interested in what is going on now than what is reported after the event in the annual accounts. How could the increased availability of management information be made to happen so that, for example, Select Committees have more access to that kind of information?

Sir Amyas Morse: By Parliament pushing for it; by your Committee and the Public Accounts Committee, to be precise about it, pushing for it.

Q180 Chair: What sort of form should that come in? Should it be quarterly or monthly?

Sir Amyas Morse: That will depend on the nature of the business. If you are looking at some businesses quarterly is all you need. For others, you may want to monitor what is going on on a shorter basis.

Q181 Chair: How in a recommendation do we specify what we want the Government to give to Select Committees?

Sir Amyas Morse: Personally, if you were going to ask for something I would ask for something quarterly, which gives you less volume to look at and it will give you a good idea of what was going on rather than monthly, which will be too much.

Chair: That has been a very full session. Have you got anything else?

Q182 Paul Flynn: A very brief one. In 1992 Prime Minister John Major approved the first private finance initiative deal. In 2001 the late David Taylor, who was an accountant, made a devastating critique of PFIs in the Commons. The result of these 24 years of PFI has been very gratifying to politicians who had instant successes, but it has placed an albatross of debt around many bodies, such as hospitals, which will last for decades. It is probably the single worst decision taken by politicians over the last 30 years. In an ideal system, at what point do you think some voice from outside, from independent auditors, should have said to politicians of all parties, “You are behaving in your own financial interest, and fixing debt on hospitals and other areas in the country to the great detriment of public finances”?

Sir Amyas Morse: As a matter of fact I know, because they did it in my time as well, we have published a lot of reports examining PFI. They pointed out the advantages and disadvantages of PFI. The important point you make is the one at the beginning of what you said. If you want something on credit sooner or later you are going to have to pay for it. You can make whoever you like pay for it but in the end someone is going to. If you build a hospital and say, “We’ll have this hospital and we’ll pay you for it” you are then left with a debt. Particularly if you double that up with saying, “We’ll also give you a long-term contract for maintenance at the hospital and a series of other things”. If you are not very clever about how you manage contract variations—in other words, people are constantly changing the layout of the hospitals, wanting to change how the departments are organised and every time you do that you get charged more—then you are not providing yourself with a good quality commercial resource to negotiate. The big decision is saying you want to borrow in order to have an asset in the first place rather than accumulating money and paying for it. Once you have done that you are going to have to pay that back. You could have funded that programme by gilts or some other form of borrowing, but this decision has the effect of locating the liability on particular public bodies. That is true. That has had quite a dampening effect, certainly particularly on hospital trusts that have got long-term liabilities.

Q183 Paul Flynn: David Taylor, whom I knew very well and I greatly regretted his death, said that was the speech he wanted to be remembered by when he died. He was attacking his own Government and he was answered by a Labour Minister who did not actually mention anything he said in his speech. If a family did this they are heading for Queer Street. If they borrow unwisely and pay back in the most expensive way they are going to head for certain trouble. Everyone knew this was a disaster and only politicians were served by it but it went on for 20-odd years.

Sir Amyas Morse: I do not think it is as simple as that, that everyone knew it was a disaster and only politicians were served by it. I have seen PFI projects that worked out okay because they were not repaying over a ridiculously long period of time but paid over the real life of the asset. They managed their side of the contract well so they did not get taken to the cleaners during the contract.

You have a question in principle, “Should you have ever borrowed money to buy that asset?” However, if they did not pay an excessive rate for the borrowing and they had reasonable service it is possible. I have seen PFI hospitals and PFI assets where the deal has actually delivered what it said on the tin. Not everything about it is automatically dreadful. If you assume something that has a 20-year life is actually going to have a 30-year life, and only needs to be repaid over 30 years, do not be surprised if somewhere in

that time you are left with a white elephant. It is possible to do a PFI deal that produces a reasonable result. I have seen some. I have to be honest and say it is not automatically dreadful but you have to be willing to borrow enough to say, “It is okay to borrow to buy assets in the first place”.

Q184 Chair: Is there any point in the Government hiving off very long-term assets, like the Treasury building, to the private sector and renting them back when, in fact, such a transaction does not balance the liability and the requirement?

Sir Amyas Morse: That is a policy question.

Chair: Thank you very much. You have been very helpful. I hope we are going to produce a helpful report. Thank you very much. If we need to pick your brains behind the scenes I hope that will be all right while we get our report under way.

Sir Amyas Morse: Of course, we are here to support you.

Chair: Thank you very much indeed.

