

Public Accounts Committee

Oral evidence: NAO Estimate 2017-18, HC 1033

Wednesday 15 March 2017

Ordered by the House of Commons to be published on 15 March 2017.

Watch the meeting

Members present: Mr Richard Bacon (Chair); Philip Boswell; Chris Evans; Kevin Foster; Kwasi Kwarteng; Nigel Mills; Bridget Phillipson; Karin Smyth.

Richard Brown, Treasury Officer of Accounts, HM Treasury, was in attendance.

Questions 1-22

Witnesses

[I](#): Sir Amyas Morse KCB, Comptroller and Auditor General, and Michael Whitehouse, Chief Operating Officer, National Audit Office.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]



Examination of witnesses

Witnesses: Sir Amyas Morse and Michael Whitehouse.

- Q1 **Chair:** Good afternoon. We are here to take evidence from the National Audit Office on its estimate prior to its meeting with the Public Accounts Commission next week. The Public Accounts Commission is the body of Parliament that provides the budget for the National Audit Office. We as a Committee would like to get our own view on the NAO estimate before the Public Accounts Commission take evidence on it themselves. We are joined by Sir Amyas Morse, the Comptroller and Auditor General, and Mr Michael Whitehouse, the Chief Operating Officer of the National Audit Office. You are both very welcome. I will start and then hand on to some of my colleagues.

Sir Amyas, in your memorandum you say that the savings from your value for money work amount to £1.2 billion for 2015. This—or at least most of it—appears to come from just four pieces of work: public sector pensions, tax credits, accelerating tax payments and defence inventory. Does it cause you concern that such a big proportion of the total savings that you can identify or attribute are from such a small number of sources?

Sir Amyas Morse: Yes, it does. Part of that is to do with the fact that, in such large and easily quantifiable programmes, it is quite easy to show what savings you have delivered. So in one way, it is fairly mechanical that that is the case. But I have launched a new programme—in fact, I was privileged to be speaking to the Wednesday morning colleagues this morning, promoting a new programme on value management whereby we are saying, “Our main job is obviously to help Parliament to hold Government to account—

- Q2 **Chair:** Just to clarify, when you say “Wednesday morning colleagues”, you mean the meeting of permanent secretaries.

Sir Amyas Morse: I do. I’m sorry: I should have been clearer.

Although our main job is to help Parliament to hold Government to account, we think it is desirable to identify ways in which we can add value and achieve savings, and we would like to do that in a rather more formal discussion. I have had very positive responses to that from Government, so at the beginning of each year, we will have those discussions about a programme, and I hope that will, over a relatively short time, provide us with something that is more wide ranging in terms of a way of estimating. Although this is all agreed and supported by the Departments concerned—our traditional method—I am aiming to move to something whereby we have a wider value dialogue, both in terms of specific reports that we have done on the Department and in offering to bring the benefit of the knowledge we have developed across Government in areas such as transformation and other things of that sort. We are taking quite a different approach to trying to add value back, and we have done that in response to what we had as client feedback or feedback from Government.

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We asked for it, and this is what they said they would like. They feel we know a lot about what is going on in Government and they would like to have more access to it if they could. I see absolutely no reason why we should not do that. It is not going to have an extra cost associated with it of any meaningful amount.

Q3 **Kwasi Kwarteng:** Do you have an updated figure for 2016?

Michael Whitehouse: I can answer that. Our current estimate is that we will save £734 million. That has been subject to our own internal audit. It has yet to be verified by our external auditors. That will be done over the next month and then it will be published with our annual set of accounts.

Q4 **Kwasi Kwarteng:** That's quite a big difference. I was surprised when you said that, because I was expecting the figures to be like on like—the same. Can you account for the difference—the big difference—between £1.2 billion and £700 million?

Michael Whitehouse: Over the last couple of years, we have achieved savings in the region of 82 to one. This year, we still exceed our target of 10 times the running cost of the NAO. I think there are a number of factors that you can take into account. A lot of the low-hung fruit has now gone within Government Departments. The change in our approach identified by the CAG is a recognition that if you are going to generate value, you need to be focusing on much longer-term value creation within Government Departments.

Q5 **Kwasi Kwarteng:** Do you have a map in your mind of which areas of investigation yield the most savings? Is there any kind of correlation that you have worked out?

Michael Whitehouse: Traditionally, procurement, management of avoiding fraud and malpractice, control over transaction costs, running costs—inventory is another area where we have always been able to identify financial savings. Largely, where there are transaction costs, it is much easier to focus on things like productivity and process time.

Sir Amyas Morse: Just to be clear, we do not actually set up our study programme or work programme primarily based on identifying these savings; rather, it is on things that we think Parliament will want to explore and hold Government to account on. As it happens, I know that we are planning on doing some more work on inventory in terms of the MOD. Because of the relatively narrow base, we can go from relative famine to feast very quickly. That is why I think it is important to move to some more holistic system.

Chair: Kwasi, do you have another question?

Kwasi Kwarteng: No, I'm happy with those answers.

Q6 **Chair:** I would like to ask about capability in Government, because you have often drawn attention to the problems with Government Departments having the right capabilities. In fact, I am looking now at the National Audit Report called "The Assessment of the Capability

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Review Programme", which came out in February 2009, eight years ago. I think it was the year after that the civil service capabilities plan was launched.

We had evidence from the chief executive of the civil service a couple of years ago, so some six or seven years after that Report, saying that one of the biggest problems in Whitehall was the lack of distributive capabilities. What impact do you think your previous Reports on Government capability have actually had?

Sir Amyas Morse: Just for completeness, we are publishing another Report on Government capability next week, and I think that it has had quite a lot of impact, because as often happens when we are going through the process of developing these Reports, we find that the Government reacts and quite often takes action while the Report is in preparation. That is a very good thing. I do not think that there is very little difference between us and John Manzoni in recognising that we need to professionalise in a number of areas. The areas that he has recognised are in digital and commercial skills, which you would not find surprising, project delivery and change management skills. I agree that those are the main gaps; the question is the rate of progress. The only point where I guess we diverge a bit from John Manzoni's analysis, and we have done a lot to support him in that, relates to how much pressure is required and what the pace of improvement is. I think that the pace of improvement needs to be pretty rapid considering the threats that Government faces at the moment. Other than that, there is really no difference. We have played quite a big part in supporting John, and there is certain amount of ping-pong between him and us in terms of reinforcing each other's message.

- Q7 **Chair:** Yes, it is not surprising that you should have little disagreement with John Manzoni on what needs to be done, because essentially you are looking at and talking about the same problems. The separate issue is how the centre of Government manages to get traction with all the departmental fiefdoms and actually make these things happen and make the rubber hit the road in the Departments. That is a different thing.

Sir Amyas Morse: Yes, it is.

- Q8 **Chair:** I suppose my question about how much impact your Reports are having is not, are there people at the centre who think they are saying good things, but to what extent is that actually changing behaviour in Whitehall Departments and agencies?

Sir Amyas Morse: Two things to say to that: the fact that the Departments have adopted the idea of having a professional development structure is very positive. I think that we have contributed to making a difference to that. I would definitely say that there is something quite cogent in which we have played a part. Secondly, though, we have particularly drawn attention, and I am quite gratified to hear some of this echoing back, to the challenge presented by Brexit. We have said that in addition to a very heavily loaded programme of existing legislation and reform in government that we have all been looking at, there will be even

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more challenges in negotiating Brexit, so where are you getting the resources from?

- Q9 **Chair:** May I ask you to hold that thought, because I know that Mr Boswell wants to ask you about Brexit? On the general subject of capability, and in the interests of full disclosure, I should say that, yesterday, the Chair of this Committee and I met Ben Gummer, the Minister for the Cabinet Office. One of the things that he was very focused on and said quite clearly was that he wanted to do more to encourage civil service learning to be properly embedded. Of course, it is now some years since the National School of Government was abolished, and one has a sense that Whitehall has been feeling its way in terms of what comes next. What contribution do you think the National Audit Office may be able to make in terms of helping the centre and indeed the Departments to focus on getting better learning, presumably including functional leadership?

Sir Amyas Morse: I think our contribution will be to hold to account and push for actual progress, rather than good intentions. The only concern that I have with a lot of these programmes at the moment is that previously there was an era when programmes were run out of the Cabinet Office under Francis Maude. Now, there is much more of a voluntary approach. There are a lot of good things about that, but depending on how urgent things are, the question is whether it is really achieving results. I think both the PAC and ourselves—we don't have an impact on our own—will want to ask at just what rate progress is being made. Otherwise, what we tend to get are some very good intentions and not fast enough progress.

Chair: Jam tomorrow.

Sir Amyas Morse: I think it is through that mechanism that we make a difference.

- Q10 **Chair:** One area that has become central to the Committee's work in the last few years is the Government's management of private sector partners of all kinds—not just PFI or public-private partnerships—because it has become so much more a part of the furniture and the landscape. What particular concerns do you have about the way the Government manage such partnerships? You say in your estimate that you want to look closely at this area.

Sir Amyas Morse: The problem can be just how tight a grip the Government have on what is happening on the other side of the partnership. We have seen quite a few examples in the Committee of issues coming from work having been given to a private sector organisation that hasn't delivered according to plan or there has been some major break-up in the relationship. You know, because we have had that with Serco and in other areas. There has been a considerable track record.

What we have specifically done is to build up a team of auditors who are particularly skilled and focused on auditing commercial contracts and

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arrangements, and who are qualified with the International Association for Contract and Commercial Management. We are deliberately building up capability ourselves to examine more forensically and consistently across the piece.

Chair: May I also say in passing—I should have said this at the beginning—that since it is quite warm in here, those who wish to should take off their jackets. I know that, for the honour of Scotland, Mr Boswell is trying to keep his jacket on.

Q11 **Philip Boswell:** Thank you very much, Chair. In your memorandum, you say Brexit is one of the key areas that you expect to focus on in future. In what ways do you think you are likely to add most value as Brexit policies develop?

Sir Amyas Morse: Well, what value we add will vary. What is happening is the slow clarification of what the issues are in Brexit. Right now, our message is that there needs to be early planning, admitting that that plan will have to have—there are at least two major scenarios that could happen; it would be good for the Government to have plans for both. It is clear that some Government Departments are much more affected by Brexit than others. You can imagine how that is. Defra are particularly affected, as you would expect, but it is not just them; HMRC is heavily affected as well.

So, it is understanding that and saying that you need to have Departmental plans, but also you need to step back and look more widely and look at the challenges the Government as a whole have, and how to prioritise resource not just on a Departmental basis. It cannot be right that some Departments, which by chance are not affected by Brexit, get to carry out their whole programme. There needs to be more of a discussion about how it will actually be done, particularly as there will be a shortage of legislative spaces in the timetable; it is going to need massive legislation—not just one Act—to carry Brexit through. There will be a great deal of secondary legislation, so there has to be rationing on the amount of legislation that can be brought forward. All of that calls for an intelligent, prioritised discussion, adapting to the circumstances as we go forward. That is one.

The second I will mention to you just to open up. It relates more specifically to us. We are clearly going to have a row about what outstanding balances there are between the UK and the EU. I'd expect the auditors to play a role in that; that is normal in the commercial world, to validate and examine. I fully expect that, and we stand ready to do that.

Q12 **Chair:** That is very interesting and helpful to know. I have been surprised that there should be a row, purely on the basis that it ought to be fairly clear what the obligations are. There shouldn't be some sort of special price; there is merely what we have already agreed to up to a certain date. Presumably, if programmes overlap, there will be a negotiation.

Sir Amyas Morse: Then we will have a very simple job to do, but I think it is unlikely to turn out like that.

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Q13 **Chair:** Do you expect that, in doing that, you will be co-operating not only with the European Court of Auditors but perhaps with the Cour des comptes or the Bundesverfassungsgericht or the Dutch?

Sir Amyas Morse: We will do what we need to do to do our job properly. I cannot anticipate, because I do not know exactly how this will turn out, but it does look like there are some very big numbers being thrown around, and in order to get those to something realistic that makes sense to us, I am sure there will be exchanges at Treasury level. There also needs to be some independent verification of numbers.

Q14 **Chair:** Yes. Parliament will be looking for independent verification, I am sure.

Sir Amyas Morse: I am sure. All I was saying was that I anticipate that being a challenge—and not one that will be over in five minutes by any means.

Q15 **Philip Boswell:** These are quite substantial requirements, potentially. In respect of your office, the NAO, what are your biggest areas of concern in terms of Brexit? I am particularly interested in workload and your preparations in respect of Brexit, and the impact on the various Departments you have mentioned—while still fulfilling your requirement as auditors, the function we have and all the planned work that lies ahead of us.

First, what are the main areas of concern for you? Secondly, I see that the budget is up 3.2% from last year, mainly from your new functions in terms of the BBC and the proposed audit technology programme. But if you were to fulfil both roles—to continue with the NAO's planned work and to service the worst scenario of Brexit—what impact would that have on the budget and what additional resources would you require?

Sir Amyas Morse: I just don't know the answer to that, and I don't think there is enough detail to be able to answer it. There is a reason for that, which is that it rather depends how the Government react. If they decide that they are going to go through a process of rationalising their existing programme to bring it into line with the resources they might have available and the amount of senior management time and resources they have available to handle it, I imagine we will want to do some overarching work to look at the overall way in which the programme is being directed and then some specific work looking at Departments and how they are changing. That is what I have in my head as an outline plan. That will affect the amount of other work being done by Government and therefore will somewhat affect the amount of other work we need to do.

I am not starting from the assumption that, "Oh my gosh, it's a tidal wave!" If it turns out that we need more resource, we will come back to TPAC and ask for it. I am not in a position even to say that we need more resource for it, because until I know the timescale and whether it is a hard or soft Brexit, there are so many other things that will have as much of an effect on the speed at which this stuff has impact.

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I am not in a position to plan what we need, but considering that the BBC is a pretty big new client, we have scaled up and planned up, and we are not looking at a great storm. We are quite well organised for it. We need to understand the actual additional work we need to do. I am not assuming that it is some huge growth; I am saying that it is significant growth, but probably, from what I can imagine, manageable growth.

Chair: Thank you.

- Q16 **Kevin Foster:** I want to come on to another area that has been emerging over the past few years, which is the growing threat of cyber-attacks and online fraud. There has been a lot of commentary about that. Can you comment on how you believe the NAO is doing in developing its own expertise in the area? What do you see as the growing and emerging threats from your position as the main auditor?

Sir Amyas Morse: Well, to jump about quickly, what we are doing at the moment is this proposal in which we are proposing to invest a lot of money to raise our digital capability so as to ensure that our auditing approach is very much the latest digital approach. That is slightly different from online fraud. In fact, we have a report coming out on online fraud, and we will have a great chance to talk about it then. Clearly we have the capacity to look at online fraud now, because we are doing so.

If you set aside very big individual events, such as Brexit, and think about the long-term trend of Government, you see that that is towards being more and more online and there is therefore more and more risk of online crime. We can see that online crime is growing.

How to handle it is something that we see as a high priority, and we are building our capability to do that. We already have a specialised group to do it. In our new leadership team, we have appointed someone to lead on digital. They are an ex-McKinsey person who will lead on digital. So we have set up that and a specialist team just to address those issues.

- Q17 **Kevin Foster:** Okay. And just quickly, can I confirm that you are looking in depth at the £1.9 billion that the Government are spending on the cyber-security strategy? I presume looking at that in some depth will be part of the NAO's normal work.

Sir Amyas Morse: It is part of our normal work, but obviously the quality of view you have of it depends on how much you understand about how well what they are doing works technically. That is where we really need to go. I can do an audit of whether it is well controlled, well planned and all of that, but to understand whether what they are selecting are the right solutions—not every technology solution selected in Government is the right solution—is more challenging. That is where we want to be: able to make some of those judgments.

Kevin Foster: IT solutions—examining various ones that have gone wrong—have almost kept the NAO in a job over the last few years.

Sir Amyas Morse: I am very grateful for that, of course.

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Q18 **Kevin Foster:** With my background in local government, I will move on to the slightly different area of local services. How are you measuring the effectiveness of the work you are doing in particular on local government and its spending?

Sir Amyas Morse: Well, as for us doing Reports on local government—of course we do quite a number of what I call cross-cutting Reports, which used to be called national studies by the Audit Commission—we do a number of those, and we evaluate their impact in the same way we evaluate the rest of our work.

But we also have a focus group, which we consult on a regular basis, of people from LGA and other local government bodies to ask them and get their reaction to the work we are doing, with focused reaction and comment on the areas that we ought to be looking at, and we get their feedback to that.

Remember, some of the studies that we do that have been taken at the Committee have particular local relevance. You will remember all the work we did on children in care and all of that. That achieved a lot of attention in local government and we had a great deal of feedback from local government about that. It worked equally well with health and social care. That probably strikes more to local government than almost any other particular group.

Q19 **Kevin Foster:** Certainly. You say you have had feedback. Are there more formal ways of measuring the impact that NAO work and Reports have had in terms of those findings being implemented and generating savings?

Sir Amyas Morse: There are, but that comes under the heading of measuring value, which I talked about earlier.

Chair: Thank you. We are running out of time—our next hearing is due to start any minute—so two very quick questions, first from Karin Smyth and then from Nigel Mills.

Q20 **Karin Smyth:** Can I follow up Mr Boswell's question about Brexit? I am a little concerned that, given it is 15 March and we are starting this process in a couple of weeks' time, we are not more concerned about the workload on existing Departments and how we will look at that in this financial year, given the huge impact it will have on some Departments.

The Government have been quite clear about what sort of deal it is going for, so it is about things like the European Medicines Agency and the impact of that on the Department of Health workforce and so on. Can I press you to be a little bit more concerned about how those Departments will fulfil the programme they have already committed to and how you will manage that?

Sir Amyas Morse: I am not managing the programme they committed to, but how am I going to manage—

Q21 **Karin Smyth:** No, but you are going to have to manage the workload

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that they have committed to do—

Sir Amyas Morse: Well, first of all, will they have finalised plans immediately on how they are going to deal with that when they do not quite know whether it is going to be a hard or soft Brexit? No; I am pretty sure from having contact with them that they will not. But we realise which Departments those are because they have now more or less done those evaluations themselves, and it is not all that difficult to work out whether they are most effective.

So we realise that, and, as soon as we can, we will do that type of work, but it does require that they have completed planning so that there is something we can look at, rather than just looking and saying, "Look, you have evaluated that you have got a lot of Government business," and they say, "Yes, we are still planning how to deal with this and which to drop." We can point that out, and it may be worthwhile doing that if they do not make progress fairly quickly. I just do not know how fast they are progressing—they are doing a heck of a lot of internal work on this at the moment.

I am totally with you that this is really important stuff. Please don't think that, because I am giving a couple of short answers in a hearing like this, we are not thinking about it. We really are.

Karin Smyth: I am sure we will come back to it.

Q22 **Nigel Mills:** The Government are about to publish their new anti-corruption strategy. There has been some pressure for them to include issues such as the resilience of certain key public services to corruption, and ensuring that public procurement is open and transparent and not open to any level of corruption. Is that something you have had discussion with the Government about, and do you believe you are sufficiently resourced to be able to give the assurance that our procurement and our public services **are** not blighted by **corruption**?

Sir Amyas Morse: I can do two things: I can look at the overall guidance, and I can do an overall view of how procurement is going. We have done work like that before. More likely, I will look at specific areas. If problems start emerging, we will look at specific areas where there is very major procurement going on, and particularly where there is a combined effect, or where we are getting information that there may be something wrong or we can see there is something wrong.

If there is a lot of procurement going on, we will look specifically there. We are looking at many of those areas now, such as defence and other areas like that. We are looking at transport, where there is massive procurement.

Chair: Good. Thank you very much. That is a very good spot at which to finish, because we are shortly to take evidence on your NAO Report on DFID's approach to investigating and managing corruption in its own programmes. Sir Amyas and Mr Whitehouse, thank you very much for attending. We as a Committee will be writing to the Public Accounts

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ServerTime="15:06:20"
ServerTimeZone="15:06:20"
LocalTime="GMT" />

Comment [HJ]: <TimeTag
ServerDate="15 March 2017"
ServerTime="15:05:25"
ServerTimeZone="15:05:25"
LocalTime="GMT" />

Comment [HJ]: <TimeTag
ServerDate="15 March 2017"
ServerTime="15:05:26"
ServerTimeZone="15:05:26"
LocalTime="GMT" />

Comment [PR]: <TimeTag
ServerDate="15 March 2017"
ServerTime="14:54:39"
ServerTimeZone="14:54:39"
LocalTime="GMT" />



HOUSE OF COMMONS

Commission shortly to let them know what we think of your evidence. I'm sure we will say something nice. In the meantime, thank you very much.