House of Commons

Public Accounts Committee

Oral evidence: Excess Votes, HC 1931

Monday 11 February 2019

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Watch the meeting

Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Shabana Mahmood; Anne Marie Morris; Bridget Phillipson; Lee Rowley; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General; Adrian Jenner, Director of Parliamentary Relations, National Audit Office; Steven Corbishley, Director, NAO; and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1-28

Witnesses

I: Mark Ormerod, Chief Executive, and Joyti Mackintosh, Director of Finance, United Kingdom Supreme Court.

HOUSE OF COMMONS

Examination of witnesses

Witnesses: Mark Ormerod and Joyti Mackintosh.

Chair: Good afternoon and welcome to the Public Accounts Committee on Monday 11 February 2019. We have two sessions today. The first one is for us to carry out our constitutional role to oversee the excess votes requests. Today we are considering the UK Supreme Court's overspend in 2017-18. It is in some ways a technical overspend, because it relates back to the Supreme Court not including VAT in its building valuations for the past eight years, which it should have done because it was not able to recover the VAT. That amounts to an excess vote for 2017-18 of £665,000, which is the accumulative amount.

Each year the Treasury asks Parliament to approve overspends by Government bodies. The Public Accounts Committee is required to consider the reasons for the overspend and report to Parliament on whether we object to the additional amounts needed. It is an important part of our constitutional role to call in those who have had an overspend. The Supreme Court has the only excess vote in front of Parliament. Although it might be a technical accounting error, it is important nevertheless to raise it, ask some questions and hear your explanations. We do not expect this to take very long.

Our witnesses are Mark Ormerod, the accounting officer at the UK Supreme Court. Welcome, Mr Ormerod. I think this is your first and maybe your only time in front of us.

Mark Ormerod: Yes.

Chair: You hope.

Mark Ormerod: I hope.

Chair: Joyti Mackintosh is the finance director at the UK Supreme Court. Shabana Mahmood is going to kick off.

Q1 **Shabana Mahmood:** Welcome. As we have heard, this relates to a technical error regarding the treatment of VAT on your capital costs for accounting purposes. It is a technical error, though, that seems to have occurred for eight years. How on earth has that happened, Mr Ormerod?

Mark Ormerod: As you say, it dates back to the establishment of the Court in 2009. It seems there was a misunderstanding of what had been written in the annual report, which comes from the Valuation Office, in relation to the building. It stated: "The DRC"—the depreciated replacement value—"figure supplied excludes VAT." It seems that was taken to mean that "get VAT" was not to be included, and that error was then replicated year on year.

Q2 **Shabana Mahmood:** It was never assessed in further years.

Mark Ormerod: The error was eventually spotted. The valuation takes place every year, but, as I say, because it had been treated in that way in the previous year, I am afraid it was just treated in the same way—

Q3 **Shabana Mahmood:** In those subsequent years, until it was eventually picked up. Someone went back, looked at that guidance and thought, "We've misinterpreted it."

Mark Ormerod: It seems that way.

Q4 **Shabana Mahmood:** I am tempted to remark that the day to day business of the UK Supreme Court is on the interpretation of policies and laws as they are written. Mistakes sometimes creep into the system, but when this mistake crept in, why wasn't it picked up?

Mark Ormerod: Our accounts are subject to a lot of examination. We have internal audit and the National Audit Office, and we have two accountant non-executive directors, but unfortunately it wasn't spotted. During the financial year in question, a member of the finance team had been on some VAT training and was taking more of an eagle eye in relation to VAT, so when the valuation report came in with this statement, he queried it with the Valuation Office and then queried it with the National Audit Office, who referred it to their technical department, and it was found that we had been treating it inaccurately since 2009.

Q5 **Shabana Mahmood:** So a new member of the team who had had some additional VAT training spotted it.

Mark Ormerod: He was not new in the sense that it was someone coming in, spotting it and that was that. He had been a member of the team for a year or so, but he had been on this VAT training and that seems to have triggered some thinking in his mind so that when he saw this he queried it.

Q6 **Shabana Mahmood:** What does that mean for the adequacy of the VAT-specific and other training that your officials receive when they carry out this work, if it was only picked up eight years after the fact because of one training course? Does that not suggest that there is something lacking in the training programme?

Mark Ormerod: That would seem to be the case, but fortunately this training did prompt this examination, which led to the spotting of the error.

Q7 **Shabana Mahmood:** What does that mean for what you are doing to do going forward in terms of training?

Mark Ormerod: Well, we have had examination in relation to the valuation accounts in particular, but we have also been looking at other areas; Mrs Mackintosh can talk more about that. With the non-executive directors, we have been looking at a root-and-branch examination of our accounts, particularly in the valuation area. We have had a walk-through with the Valuation Office particularly concentrating on VAT, but treating this as an indication that maybe we need to focus more widely in terms of the accuracy of the accounts.

Joyti Mackintosh: When I started, about a year ago, we started having a timetable of the production of accounts, which we had not really formalised. We have now cross-referenced that with the FReM, the Financial Reporting Manual, which is helpful because it gives us an idea of the gaps that might occur or new standards that might be in place that we need to ensure we are geared up for. Because we do that now, it provides us with what is almost a glide path in terms of when we have to produce the accounts for year end. We tend to do that at the preparation or interim stage, and then we do it again at the final stage, which is before the NAO come in. That ensures that we do more robust checking of the accounts.

The other element—as I said, I only started about a year ago—is that I specialise in management accounting. My colleague, who Mark refers to, specialises in financial accounting and is qualified in that. That is quite helpful in terms of the division of work. The focus is then divided up in that way, because before it was not done in such a way. That is why it led to him stepping back and being able to look at this more holistically, take a view and then query it with the professional valuers.

Q8 **Lee Rowley:** You have just described a series of changes that you have put in place. What is your evaluation, then, in one sentence, of the processes beforehand? Were they deficient? Defective? Inadequate? Irresponsible?

Joyti Mackintosh: I would not say that. Because my colleague has also not been there since the start of the Court, in 2009-10 when this first happened, I think it was just taking it at face value and carrying on the processes that were in place then. It is just something that has continued—a legacy issue that has just continued through the years.

Q9 **Lee Rowley:** Are directors of finance supposed to take things at face value?

Joyti Mackintosh: No, and this is my first set of accounts, so as I came in I put those procedures in place, which gave that time to look back and step back from it and give a bit more time to considering this and querying it with the valuers.

Q10 **Lee Rowley:** So if directors of finance are not supposed to take things at face value, would you accept that there was an inadequate process undertaken prior to your joining?

Joyti Mackintosh: I would not say that. It is a technical—

Q11 **Lee Rowley:** You choose a word for me, because I want a word from you.

Joyti Mackintosh: I think this is quite convoluted; as the NAO has also described it, it is a technical error. It is not something you would necessarily spot.

Q12 **Lee Rowley:** We are not going to get into the technicality of it. An error is an error. You are asking for the best part of £1 million, so how did this error come about? How are you describing the processes prior to this? I want a corporate view from you about why your processes failed.

Joyti Mackintosh: I think it was just interpretation of the valuation report. It is something that we could have looked into, and obviously we did look into it as soon as we thought it was wrong, but we just interpreted the valuation report in a certain way.

Q13 **Lee Rowley:** Who has ultimate responsibility for this in your organisation?

Mark Ormerod: I do, as accounting officer.

Q14 **Lee Rowley:** What sanction has been applied—loss of bonus, that kind of thing?

Mark Ormerod: We have applied no sanctions in relation to it.

Q15 **Lee Rowley:** No sanctions? You are coming to ask us for two-thirds of a million pounds, and no sanctions were applied?

Mark Ormerod: That is the case, yes.

Q16 **Lee Rowley:** Talk me through that process. How many people have to deal with these numbers?

Mark Ormerod: There are three people in the accounts department. Then there is the director of corporate services, who is senior, and my deputy in the Court, and then there is me. We have an audit and risk committee, which is a sub-committee of the management board, and then there is the management board, which I chair, which also considers the accounts.

Q17 **Lee Rowley:** And then presumably internal audit is around there somewhere, as well?

Mark Ormerod: We have the NAO and the audit and risk committee, and they each perform audits during the year on our accounts.

Q18 **Lee Rowley:** So there were nine separate failures on an annual basis to pick this up.

Mark Ormerod: As I say, it was not picked up, so—

Q19 **Lee Rowley:** Nine separate failures on an annual basis, times eight years. Is that right?

Mark Ormerod: Yes, because what had happened in the previous years, regrettably, was simply replicated until it was spotted by someone in the finance department.

Q20 **Lee Rowley:** Seventy two separate failures.

Page 77 of your annual report says, "The Chair of the Audit and Risk Assurance Committee has provided the following statement: 'We have an effective Audit and Risk Assurance Committee commensurate with the size and complexity of the Supreme Court… There is a range of skills and experience amongst the committee members which provides valuable insight and review.'" Do you think that accords with what you are telling us today?

Mark Ormerod: As the Comptroller and Auditor General said in his assessment, there is no question of impropriety or anything like that here. This is a technical error. There is a question of proportion, I suppose, in relation to it. I would say that the overall assessment, in terms of how the Supreme Court is run, was accurate.

Q21 **Lee Rowley:** Why should we not object to this? Why should we now request a parliamentary debate to talk about it in more detail?

Mark Ormerod: Because it is a technical error and has been described as such. Obviously, the amount we are talking about is £665,000, but that is over eight years, so that needs to be taken into account. I think the rest of the operation of the Supreme Court year on year has been found to be satisfactory. We have never had our accounts qualified before, and I feel that this is an organisation that is correctly run. It is just unfortunate that there was this technical error, which has been replicated year on year, and thereby exacerbated the amount that now has to be asked for.

Some credit is due to the fact that we contacted the NAO as soon as we found out about this. We were unfortunate in the timing. It was not possible to ask for it part of a supplementary estimate, because it was discovered in February. Had it been discovered at another time of the year, we would have been able to ask for a supplementary bid, so we were caught out by that. I don't feel that that means that the organisation is failing.

Q22 **Lee Rowley:** Can you both give me a personal pledge that you will not be back here next year because of another error, technical or otherwise?

Mark Ormerod: I shall do everything I possibly can no to do that—absolutely.

Joyti Mackintosh: Yes.

Q23 **Shabana Mahmood:** Thank you for that pledge. I note what you say about the timing of this. Of course, we would not have been in this position if the initial mistake had not been made. From your responses to my earlier questions, it seems to have been picked up because of some VAT training that one of your officials went on. That VAT training might not have happened, and you could still have been making the same error for some years to come. What additional assurance can you give this Committee that that inadequate initial assessment will not be repeated?

Mark Ormerod: This particular error certainly will not be repeated. As I say, we have used it as an opportunity to look more carefully at everything we are doing in this area, through training and the discussions with our NEDs, the National Audit Office and internal audit.

Q24 **Shabana Mahmood:** Is everybody who is involved with every aspect of your accounting fully trained up in what all these standards mean?

Joyti Mackintosh: Yes. There is myself and the other accountant, and we are both trained up. We go to the GFP technical school and chat to the NAO. We also do a presentation on HMT. We are hooked into the FD network—the directors' network—which is basically a network for talking more generally about accounting, and also about any changes to the accounting standards and any new things we need to be aware of. The FD from the GLD is the chair of that, and it flows through. It specialises in small Departments.

Q25 **Shabana Mahmood:** Is that process going to be repeated regularly?

Joyti Mackintosh: Absolutely, yes.

Q26 **Shabana Mahmood:** How regularly?

Joyti Mackintosh: The FD network meets quarterly. Either I or my colleague or both of us attend each of them, and the GFP technical school happens every single year. The VAT training is done every single year. We also hook up with other accountants on anything else that comes out of OneFinance—the HMT-civil service website—so that is quite helpful. We have very good relationships with the NAO, which is helpful in terms of the new standards that are coming out now. They have advised us previously, as well. We keep up to date with guidance from their online guides, in terms of accounting and best practice in general, as well as value for money.

Q27 **Chair:** As a Committee, we look a lot at how Government finance works. There has been a lot of improvement in that over recent years, with the head of Government finance role ensuring that best practice is shared. From what you have described, Ms Mackintosh, you have been participating in that. Are there any lessons that we could take up and pass on about how to ensure that people in your position are being properly supported to understand the many complexities that you are dealing with?

Joyti Mackintosh: I think it has improved a lot. I had a stint of about seven or eight months in the private sector over a year ago. I have come back to the public sector and found it has improved a lot.

Q28 **Chair:** Even in that six or seven months that you were out?

Joyti Mackintosh: Yes. There is more use of technology, and people—the accountants—are more aware of using the blogs and chat rooms for online finance. There is more openness with the small Departments—not necessarily thinking that we are a small Department, so our accounts are less complicated. There is just more awareness. There is good openness with HMT, where our colleagues are really open. After that, we had a refresher course on the consolidated budgetary guidance, which provides all the estimates guidance, as well. That was really helpful. They came to our office and explained some parts of it. That was not something that you necessarily saw before, but now they seem more approachable. I don't think there is much to add. If you want the guidance, it is out there; it is just a matter of asking people and it is there for you.

Chair: One of the things that we do is agree what to say to Parliament about this excess vote request, but also we are keen to ensure that this sort of thing is not replicated, particularly as you are a small Department which is not led by a Minister. You are in a subset of bodies without a vast team. There are three of you, I think you said, and Mr Ormerod.

Thank you very much for coming. We will consider what we will put to Parliament. We think that at least acknowledging it and getting it out there is the right thing to have done, although you had no real choice in that. We will consider what we say to Parliament.