HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: NAO Estimates 2022-23, HC 1067

Wednesday 23 February 2022

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[Watch the meeting]

Members present: Dame Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Peter Grant; Kate Green; Antony Higginbotham; Kate Osamor; James Wild.

Adrian Jenner, Director of Parliamentary Relations, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Report by the Comptroller and Auditor General

NAO Estimates 2022-23

Questions 1 – 22

Witnesses

I: Gareth Davies, Comptroller and Auditor General, NAO; Daniel Lambauer, Executive Director, NAO; Rebecca Sheeran, Executive Director, NAO.

Examination of witnesses

Witnesses: Gareth Davies, Daniel Lambauer and Rebecca Sheeran.

Chair: Welcome to the Public Accounts Committee on Wednesday 23 February 2022. Today's session is in two parts. The first panel is with witnesses from the National Audit Office, because we want to discuss with them their estimates for 2022-23, the next financial year. Later we will be talking to officials from the Department for Business, Energy and Industrial Strategy about their annual report and accounts.

The first business for today is the National Audit Office's main estimate, which is their budget plans for the next financial year, which is something the Committee does every year. After this panel, we will pass our views on to the Public Accounts Commission, which is the body in Parliament that has to approve the estimate, in other words to agree the funding for the National Audit Office for the next year. We have to say to them whether we have any concerns or issues about the NAO's proposed spending plans.

I am delighted to welcome to the Committee as witnesses—of course, the C&AG is a standing witness to the Committee anyway, but I mean in the sense that he is actually answering our questions—Gareth Davies, the

Comptroller and Auditor General, who heads up the National Audit Office, Danial Lambauer, who is an executive director at the National Audit Office, who manages the HR, internal processes and finances there, and Rebecca Sheeran, who is an executive director at the National Audit Office. A warm welcome to you. Thank you for coming. You did not have a choice, but thanks for coming willingly.

Q1 **Sir Geoffrey Clifton-Brown:** C&AG, good afternoon. You are in the hot seat today. I know this is an arm's-length hearing in relation to your latest estimate, but, before I start asking you questions—you do mention it in your annual report—let me just say how much we appreciate on this Committee the support given by the C&AG and all NAO staff to this Committee. It is exemplary; it is very professional. Above all, your staff are very helpful people to deal with. Thank you very much for all that. If you would pass that on, I would be grateful.

Gareth Davies: We will, yes.

Q2 **Sir Geoffrey Clifton-Brown:** You intend to retain £2.1 million of additional funding previously provided for pandemic work. Could you give the Committee more information on the pandemic-related activities that the NAO still expects to be dealing with, including these delayed accounts and so on, how you expect to get back to normality and how you intend to return those funds?

Gareth Davies: Yes. For the 2021 audits, the round we have completed recently, we sought that additional funding to cope with both the delays imposed by the pandemic on Departments preparing the accounts and our audit work and, crucially, the amount of audit work that was needed to cover the risks. We were dealing with hundreds of millions of pounds of expenditure on very new and risky areas of spend and the creation of new liabilities for Government with uncertain collectability in many cases. A lot of audit work was required.

We were right that we did need that resource. We have used all of that this year, the year just ending, and we have delivered high-quality audits of some pretty complex accounts. Your Committee has a hearing on the BEIS accounts today and one on the DHSC accounts in a couple of weeks. Both of those Departments needed substantial additional audit work. That is where we have used it. Nearly all of it has gone on our financial audit work. We have also had a very large programme of value for money work on the pandemic. We have coped with that within our normal level of VFM resources, rebalancing the programme to deal with that. We have produced other things as well, such as the Covid-19 cost tracker, out of our normal resource level. The additional amount that you mentioned is for extra capacity for financial audit.

We do need that again for the 2021-22 accounts, the year just ending, because that clearly still includes a lot of pandemic spending. The furlough scheme ran up to last autumn, you will remember. The liabilities are still on those balance sheets, and we need to update our understanding about levels of fraud and error and collectability and so on. There is still a lot of complex financial audit work to do for next year, which is why we still need that resource. Clearly, we hope—and everybody hopes—that the new spending stops then. For financial year 2022-23 we expect to need less. Our forecast shows our financial audit resources going down by that amount by 2024. We expect them to be at the level we were at before the pandemic in that area of our work.

Q3 **Sir Geoffrey Clifton-Brown:** C&AG, that is predicated on the basis that Departments and other non-Government Departments start auditing their accounts on time. Can you tell the Committee what steps you are taking to make sure that happens? When do you expect to get back to normality?

Gareth Davies: It is a collaborative effort. Every audit is a collaborative effort between the audited body and the audited. That is the way we are approaching this with each Department and other public body. We want to get back to the position we were in before the pandemic, where all main Departments had their accounts certified by the summer recess. Around about 80% of all public bodies were on that timetable as well. Our plan is to get back to that for summer 2023.

We will take a big step this summer, where we aim to be at 70%, but there will still be a small number of Departments that will not make it this summer. The Department of Health and Social Care is the obvious example. Even in that case, we are working with them on a two-year plan to be back pre-recess in 2023.

As I say, this depends on good collaboration. It does require those Departments to prioritise this. In all my conversations with Permanent Secretaries in their roles as accounting officers, we have been stressing how significant a priority this is for the Departments that have a lot of catching up to do. Every Permanent Secretary in that situation has agreed that it is a priority for them. They are allocating the resources, and we have seen that happening. At the moment, I am confident that we can deliver that two-year plan, but I will let the Committee know if I get concerned at any stage in the process.

Q4 **Sir Geoffrey Clifton-Brown:** Can I ask about your excellent staff? You want to retain them and you want to reward them in a reasonable manner. In these estimates, you are proposing an increase of 2%. It is the largest part of your estimate. Do you consider that to be the right level of increase to retain staff? What is the position on retaining staff at the moment?

Gareth Davies: It is one of the tougher decisions that you have to take in my role or as the head of any organisation. As the Committee knows, the quality of our work is entirely dependent on the quality of our people. We have a good track record of retaining high-quality people and attracting people to apply for vacancies as well.

I keep a close eye on our ability to fill posts from the external market, as well as through internal promotions, and our retention rates in each grade. I listen to the feedback we get from exit interviews—we are keen to understand why somebody is leaving and whether it is to do with pay—and I have conversations with staff in the organisation, which go on all the time. We now have a monthly staff survey rather than an annual staff survey, so we have a very regular barometer check on what people are feeling. We also have an active union, which feeds back its views to us as well.

We have all of those inputs, and I am trying to balance being a responsible steward of public money—that is what we are spending here—and making sure we can secure high-quality people, keep the people who we have spent a lot of time developing as experts in these areas and fill posts from the external market. At the moment, that is going okay. We have seen turnover in some of our key grades, particularly newly qualified auditors. That is our most marketable commodity. It is a very tight market in the accounting firms at the moment. They are very keen to recruit our people when we qualify.

At the moment, we are just above our target level of turnover for that grade. We target 15%, which is a healthy level for turnover at that level for us. If it was zero, we would have nowhere to promote our trainees to, so we do need some turnover. At the moment, it is tracking at 16%, so just 1% above the level. We are never complacent about this, because it is a lagging indicator. By the time you have seen the turnover rate climbing high, it is a bit late to be doing anything about it. We think this is a medium-level risk for us at the moment. 2% is the minimum that I can recommend as responsible here. Any less would be running a serious risk on retention, and any more would then get into the problematic area of public sector pay.

The people who work for the NAO accept that they are part of the public sector. They knowingly join the public sector to do this job, and there are trade-offs. There is a better pension scheme at the NAO than they would get in any of the firms, if they joined the firms at this stage. There are other factors that people take into account. There is also the inherent interest in the work, which is what many people are at the NAO to do. We are weighing all those factors all the time. We think this is about right for this year.

Q5 **Sir Geoffrey Clifton-Brown:** In your report, you make it clear that you are targeting your pay increases towards the younger or newer element. Any organisation is vitally dependent on its new young talent coming in. What sort of measures are you taking to recruit youngsters? Do you run a good apprenticeship scheme for those who are not qualified? What do you do to attract those who are recently qualified?

Gareth Davies: First of all, you are right: along with the 2% across the board, we are asking for a further 1% to target the lower end of our grades. That is where we see pay gaps. People have fallen behind for various reasons, and we do need to do some catching up there.

On your question about recruiting younger staff, we are one of the country's leading employers of chartered accountancy trainees. We have an intake every year of 70 to 80, which is not as much as the big four, but we are certainly a significant employer of trainees. We also employ people straight from school at 18 on an apprenticeship scheme. It is a smaller number than that, but that is still an important area. We have an intern scheme every summer as well, where we take on 12 to 15 interns. That is targeted on people from lower socioeconomic backgrounds as part of our social mobility work. We have had great success on that scheme in the last couple of years in terms of converting interns into applicants to our graduate programme. Typically, they are second-year university students. They have become successful trainees and qualified auditors. There is a very active pipeline there.

We also recruit not just in London and the south-east but to our Newcastle office as well. There is a significant recruitment programme in the north east as part of that effort.

Q6 **Sir Geoffrey Clifton-Brown:** You read my mind. The next question is about Newcastle and, in particular, moving on to office space. Do you have an office in Newcastle? Are you going to negotiate for a new one?

Gareth Davies: I might bring Daniel in for some of the detail here, but, yes, we have two offices: our main London office and then an office in Newcastle. There are about 90 desks in that office in Newcastle compared to 460 in London, so it is a smaller office. We are coming towards the end of that lease. Daniel, do you want to say a bit about the lease term?

Daniel Lambauer: The lease term in Newcastle expires in 2023. We are now putting together a strategy and thinking about what space we need in Newcastle. That work has begun in time to be able to renew the lease.

Q7 **Sir Geoffrey Clifton-Brown:** Is there a particular reason why you need to be located in Newcastle? Are office rents there higher or lower? Is it a good place to recruit? What is the reason for selecting Newcastle?

Gareth Davies: It was before my time, but the reason we went there in the first place was to follow our clients, essentially. There are large DWP, HMRC and other public body client sites in the north-east. We were levelling up before quite a lot of Government, in that sense. We are now watching very closely how Government are relocating significant chunks outside London.

We are keeping an open mind about that. It is too early for us to commit to a potential third site, because there would be fixed costs associated with that. We would need a really good business case for doing that. As you know, the Department for Levelling Up, Housing and Communities is relocating to Wolverhampton. Bearing that in mind, would a Midlands base be a useful thing for the NAO to have in the future? What about the impact of hybrid working? Like most organisations, we have developed a new way of working through the pandemic. We are mostly office-based, but we do a lot of work on client sites out and about. There could be an argument for a third base, which would give us another pool of recruiting to do.

Newcastle has been a really good location for us both in terms of cutting down travel time to those organisations that I mentioned and, crucially, in terms of the access to an employment market there with some really high-quality people. We are a very attractive employer in that city.

Q8 **Sir Geoffrey Clifton-Brown:** I have railed in this Committee hearings against the Government having taken out very high-priced leases fixedterm leases of 25 years. Following the pandemic, rents have come down disastrously from those original leases. I imagine there might be some very cheap office spaces available in those regional offices.

Gareth Davies: We hope so, yes. The number of options on our list is not as long as you might have expected, partly because we are insisting that it prepares us for our net zero target. We are aiming to be net zero as an organisation by 2029. This shift is a big opportunity for us and for the Newcastle office to make sure we have in place the right heating arrangements and so on. That does cut it down a bit, but there is still a good choice even with that criterion.

Q9 **Sir Geoffrey Clifton-Brown:** Again, you read my mind, because I was then coming on to your London office. There are two aspects to this. One is your net zero target and putting in a heat pump and so on, which it would be useful if you could just say a word or two about. In particular, there seems to be an awful lot of surplus office space in the Westminster areas. The House of Commons itself has a huge building that it is struggling to let. I wonder whether there are all too many people in the public sector who have big offices and whether there might be an opportunity, somehow, for the House of Commons and yourselves to collaborate a bit more on offices to your mutual advantage.

Gareth Davies: You are right: it is a very live topic. There is one constraint on our property, which is that auditing ethical standards prevent us from subletting to public sector bodies that we audit. We ran into some difficulty with the audit regulator—again, this was before my time—which pointed out that, where this was a significant item in the accounts of the body renting space from us, that was a real problem.

Again, we do have quite a strict policy on this. It complicates the crossGovernment collaboration point that you mentioned. You are right: we are making efficient use of our London office space. As the plan sets out, we are increasing the amount of space that we are letting out. We have had a very successful programme. Over the last two years, all of our lettable space has been let and is earning income. This reduces the cost of the NAO to Parliament. Of the increased space, we have made available four more areas. One of those we have already let and we have enquiries into others. We have made good progress despite the challenging market conditions that you mentioned.

Q10 **Sir Geoffrey Clifton-Brown:** You mentioned your net zero policy. It might be worth just mentioning the heat pump you are putting into your office to try to achieve that.

Gareth Davies: Yes, that is a couple of years away. We have mentioned it in the plan, because it is in the third of the three years that we look ahead to as part of our rolling capital programme. We have already had engineering advice to say that there is a technical solution for a building of our kind. It is a 1930s-construction building that was refurbed about 20 years ago. It is technically possible to heat that way, but we are a long way away from specifications, detailed designs and so on.

Q11 **Sir Geoffrey Clifton-Brown:** I have two other topics before the Chair calls time on me. What other possibilities are there for you to increase your income, whether it be in the UK or advice you give to the EU or further afield?

Gareth Davies: Again, I will bring Daniel in on the income side. The rental of our properties is a significant one. Earning money from our work raises an interesting question about resource allocation. We do not aim to make a profit on our chargeable work for auditing public bodies. Our job there is to cover our costs, including our overheads.

I will not subsidise international work. In quite a lot of international audit tenders—we have to tender for quite a lot of international work—what we find is that some equivalents of the NAO from other countries will offer to do work at very subsidised rates, because there is a strategic reason for wanting to be the auditor of that international organisation. Our policy is never to do that. We will only do international work if we can fully recover our costs, including our overheads. That means that we sometimes miss out on price. We have never seen it as a way of generating a surplus to subsidise other work. That would be a new departure for the NAO. I would be a bit concerned about us then starting to prioritise our resources for the wrong reasons, if you see what I mean.

I only take on international work where it is in the UK's interests to do that. If, for example, it is helping improve the quality of financial management where there is a lot of UK taxpayer money at stake through international development work, we do that. If the FCDO is very keen that we get involved in a particular project, of course we will consider that. It is always the UK national interest that determines whether we get involved in international work rather than me just looking to earn a profit.

Q12 **Sir Geoffrey Clifton-Brown:** Something you do not mention in your estimate report is collaboration with the devolved parliaments. Is there scope for better collaboration with them to ensure that best practice is being learned, particularly on things like the pandemic, across all four devolved administrations?

Gareth Davies: That is quite a topical question. There is definitely an opportunity for that. We do work very closely with our equivalent organisations in Scotland, Wales and Northern Ireland. The four of us meet on a quarterly basis to cover areas of shared interest.

I gave evidence to the Scottish Parliament version of PAC a couple of weeks ago on some work that we do every year. As part of our audit of HMRC, we provide assurance to the Scottish Parliament that it is receiving the correct share of Scottish income tax. As you know, that is now a devolved matter and they can set different rates of income tax. We audit the amount that HMRC allocates to Scotland based on the taxpayer base in Scotland. We work very closely with Audit Scotland on that exercise.

We collaborate with all of the UK audit agencies on the audit of the EU agricultural funds. That scheme is now ending and the last one of those audits will be in 2023. We are also comparing good practice on, for example, the pandemic response—that is an obvious one—and in other areas. There is some suggestion that Wales is further ahead than England on matters such as the evaluation of public spending, for example. We are always looking for topics where there is something to learn about the different countries.

Daniel Lambauer: Just to come in here briefly, that is absolutely correct. The relevant channels meet roughly every quarter. I meet with my equivalents in the audit offices informally every fortnight for half an hour and for deeper discussions every quarter as well.

We have around seven or eight working groups around the devolved administrations. We build them ad hoc where needed. There was a really active working group around the pandemic responses, but we also share knowledge around VFM more widely and around financial audit. There is a separate group for digital audit and one on external communication matters as well. There is a really rich exchange and very good working relationships across the four audit offices.

Q13 **Sir Geoffrey Clifton-Brown:** That is very helpful, Mr Lambauer. Let me ask my final question to you, C&AG. This session on the excess votes gives us an opportunity to query where you are putting your resources. One area where there is a distinct problem is in local government audit. I am almost asking this question given your previous experience on the Audit Commission. I am wondering what you could do to help bolster local government audit firms. Can you give them more advice or training? Is there more that could be done? This is a very fragile sector, as this Committee has discussed before.

Gareth Davies: Yes, it is a big topic, as you say. We have a formal role, which is to set the code of audit practice for local audit and to provide advice and guidance to the firms based on that code, which means that each year we update that and we engage with the firms on that. We have a working group with the firms, which one of my colleagues chairs, that meets regularly to understand how the code is working in practice and any challenges they are having. All of that works well.

Clearly, we are not resourced or equipped to provide training to these firms. We are talking about some of the biggest firms in the country, which dwarf the NAO in terms of resources.

Q14 **Sir Geoffrey Clifton-Brown:** It is a very specialist topic, is it not?

Gareth Davies: It is. If new firms want to enter the market, we have offered to help share our experience and so on as part of their induction into the new market. Fundamentally, the market has failed because the firms are finding that the risks outweigh the rewards. As free agents, they are able to withdraw from the work at the end of their contracts, if they choose to. That is the main risk that we are facing with local government audit at the moment.

The tender process that is just getting underway for the new set of fiveyear contracts is the critical factor here. That needs to restore commercial viability to this market so the firms are not just prepared to do the work but actively want to do well to hit their timeliness target, which is the big problem at the moment, as well as maintaining overall quality. We are working with a working group that the Government have set up to help this procurement become a success. We are sharing all of our experience as part of that process, and we will do everything we can within our role to make it work. Clearly, in the end, this is going to require the firms to apply the right level of resource to do a good job.

Q15 **Peter Grant:** Before I begin, can I place on record a declaration of interest? I am a qualified member of CIPFA, which still provides a significant number of NAO staff. Mr Davies, you mention in your estimate submission on a number of occasions something called the "audit transformation programme". Could you just briefly explain what that is about?

Gareth Davies: Yes. At the heart of this is the fact that every audit firm at the moment is having to overhaul its audit methodology. There are changes in auditing standards. The one that is coming in first is what is called ISA 315, which is the new risk-assessment standard for audit planning. There is much more clarity on the approach that auditors are required to take on assessing the risks involved in each audit and preparing a work programme that responds totally hose risks adequately. Every firm is having to implement that.

At the same time, new tools are becoming available, particularly dataanalytical tools, which are changing the way auditors think about how they get the assurance they need. Instead of the traditional approach of picking samples of transactions to see whether they support the figures in the accounts, it is now going to be possible to download the entire ledger from the client system and then use data analytics tools to audit the entire population of transactions rather than just a sample. That will clearly be a more powerful technique when it is refined. It is not in regular use on every audit in any firm yet, but it is coming.

With all of that going on, we have decided, first of all, that we will overhaul our entire audit methodology, including the use of data analytics, so we are compliant with the new standards and taking advantage of developments in the sector. We are replacing the 20-yearold software that we use to record our audits at the moment. Our current system is called MKI, but it is running out of shelf life and it will not be able to cope with the developments we have mentioned.

We are procuring a replacement platform. We have had a successful competitive procurement for that, and we are now about to sign a contract with a firm that will be our development partner for developing software. This is going to be a 12-year software contract. In common with most software now, it is not the case that we buy a fixed package, install it and use it; it is a platform that we will develop over time as new tools become available. That will happen in a way that is Microsoftcompliant and consistent with our overall IT strategy so that it talks to our other systems as well.

It is a pretty exciting time for the audit practice within the NAO. Within three years, we will have developed, tested, implemented and be using across all of our work this new system, which will deliver better-quality audits more efficiently. Clearly, that does not come without a lot of work. There is the system development work, but, more importantly, we have to retrain 600 financial auditors, some of whom have been doing it a particular way for 30 years or more. That is a very big organisational change job.

We have a detailed plan over the next two or three years to do that, to give it the resource it needs and to avoid it being a distraction to our core work. Yes, it is a big programme that is engaging a lot of people in the organisation.

Q16 **Peter Grant:** What parts of the programme do you expect to be delivering during the next year? What difference will people notice? Clearly it is important that you are keeping up to date with changes in professional standards, but what difference should we expect to see on the Public Accounts Committee? What difference should your client Departments expect to see in the way you audit them in the future?

Gareth Davies: The first change is the new risk assessment standard. We are piloting that on a number of our 2021-22 audits, the ones that are going on now, and then we will be rolling that out to all of our 202223 audits. That is the first phase. The new audit platform is a year behind that. We will be piloting the new audit platform a year from now and then rolling it out in 2023-24. That is the sequence.

In terms of what audited bodies and the Committee will see, the audited bodies will see it first. In many cases, we are already downloading data from their ledger systems using new software. For example, our audit of the BBC is working entirely on that basis now. It is one of our more complex audits, so we have proved the effectiveness of that approach. We will be extending that to more audits. We are moving to a greater use of reliance on IT controls as well, which has been around for a long time as a technique in external audit, albeit a generally underdeveloped one. As Government systems become more reliable on this particular count, we aim to put more reliance on that. They will see that change in our approach as well.

For the Committee it really boils down to insight. In a hearing such as the one you have this afternoon on BEIS's accounts, for example, I expect that we will not just bring our VFM insights from our work on, say, bounce-back loans but also from our external audit. As well as the findings you can already see in the report, there will be much more insight into patterns of spending, the strength of the control environment and the ability to drive savings and so on. These tools will equip us with a better sense of what is going on in some of these very large organisations.

Q17 **Peter Grant:** As well as changes to the quality of the audit both in terms of output and your day-to-day working with clients, do you expect it to lead to any significant cost savings? If so, where would those savings appear?

Gareth Davies: I am being very cautious about that. The watchword for auditors at the moment is "quality". We are all under severe regulatory pressure following the scandals in the private sector around failures of quite quality. Our focus there is on making sure we are not just meeting the standards but meeting the expectations of the regulator. As you know, our audits are inspected by the FRC in the same way as they inspect the big firms.

That is very clearly our priority. If this way of working does mean that some of the grunt work of ploughing through very large numbers of samples is rendered unnecessary by very efficient of the entire transaction base, there are potentially savings there. We have not built them into our business case deliberately, because we cannot guarantee that is the case yet. I would rather prove the concept and then say, "This is the efficiency we have achieved".

The other thing to mention—our business case is not based on this, but it is a realistic possibility—is that, because of the way we are doing the new software platform, we will own the IP of this new software. We will have a development partner and we will need an arrangement with them, but it will be ours and there will not be anything like it anywhere else. That gives us the possibility of marketing that to similar organisations around the world, including the UK agencies we have just been talking about. It is very early stages. We are not banking on it, but it is a realistic possibility. We are making sure that the contract we are about to sign carefully paves the way for us to be able to exploit the IP, should that become viable.

Q18 **Peter Grant:** For the benefit of anyone watching is not familiar with the abbreviation, "IP" means intellectual property, which is effectively the modern equivalent of a copyright on something.

If I may, I would like to pick up on a couple of answers to Sir Geoffrey Clifton-Brown's questions. You referred to your own newly qualified staff as a big marketable asset and said that they tend to be very much in demand by other employers. That could come across as you saying that the NAO is using taxpayers' money to train people up and then they take the benefit of the skills and experience off to the private sector and work for the benefit of the private sector. Is that an accurate description of what is happening? If so, is it justifiable?

Gareth Davies: I would not characterise it that way. I mentioned our target for turnover at audit principal grade, which is our newly qualified grade, is 15%. 85% of each cohort that trains with us stays at the NAO. That is a very good return. It is far higher than the equivalent figure you would find in any of the firms. No, we are not doing this to train people up for other people's benefit. We are by far the biggest benefits of that investment.

Q19 **Peter Grant:** Finally, when you answered Sir Geoffrey's question about income generation, you referred to the consideration of overseas work. You gave the example that you might be more likely to look at putting in a bid for work if the Foreign, Commonwealth and Development Office were particularly keen on it. How far can you allow yourself to be influenced in that way without prejudicing the need for you to be independent when you come to audit the same people?

Gareth Davies: Yes, exactly. First of all, there is a complete segregation of our international work from our audit team dealing with the FCDO. They are not the same people. The scale of NAO activity on that front is extremely low. It is a tiny proportion of the NAO's overall activity with the FCDO. Materially and so on, it does not influence our decision-making on anything to do with the FCDO.

What I was explaining was that sometimes there is a strong national interest in a particular funding programme and a level of concern about the audit arrangements in place for that programme. That is where we get involved in capacity-building work for other audit agencies internationally or doing work directly ourselves.

Q20 **Chair:** There is just a quick question from me. Sir Geoffrey raised the question about staff and staff pay, but you have also requested £1.4 million for external expertise. We know we have benefited, as a Committee, from the expertise you have brought in from outside into the higher levels of the organisation. What external expertise are you buying in? Why is it that you are buying it in rather than putting it on your regular payroll?

Gareth Davies: I will talk about the financial audit expertise that is most of that, but Rebecca might want to come in on what we have done on our hub directors, which I think is what you are referring to, the external recruits with specialist expertise.

On the financial audit side, in response to the inspections of our work by the FRC, we have needed to get more—

Chair: That is the Financial Reporting Council.

Gareth Davies: Yes, they inspect the work of audit firms and ourselves. They have challenged us to improve our work on complex financial instruments. There is a surprisingly large number of those in Government accounts nowadays from the former banks acquired by the Government through to the Student Loans Company, the bounce-back loan scheme and so on and so on. We have contracts for specialist advice from some of the firms, who have large teams focused on financial instruments, for example. It would not be economic for us to do the same. We have our own centre of excellence, but, to deal with the volume of queries at the peak time of auditing, we do need external help.

The same goes for pension valuations, which is another very specialist area involving actuarial expertise, and property valuation, which involves qualified surveyors and so on. Those are the areas where quite often the auditor will need to hire their own expert to challenge the valuations provided by management as part of the audit. A lot of that resource is going to those areas of advice. Rebecca, do you want to add on the hub side?

Rebecca Sheeran: Indeed, yes. In the last year, we have built up our hubs of expertise in areas like programme and project management, digital, commercial, people in operations and our analysis hub, which I will talk a little bit more about. That has enabled us to build up the work we are doing in terms of drawing out insights from across our work, both financial audit work and value for money work, to produce more of those lessons learned products, some of which you have taken evidence on at this Committee, around the Government's digital transformation programmes, for example, or delivering programmes at speed. It is enhancing our capacity to look across and draw out that learning and have impact.

It is also deepening the insights that we are able to bring to bear through our value for money work in particular and enabling us to make better recommendations and cut to the heart of issues more quickly. For example, when we were looking at the green homes grant voucher scheme, we drew quite a lot on our commercial experts and our digital experts to enable us to deliver that work quite quickly and quite insightfully.

In terms of our analytics hub, we have invested in making sure we are using the new techniques that are available to get the most out of the existing datasets that are held by Government. We are using this to do things like the work we did for the Environmental Audit Committee, in which we used Environment Agency data to look at sewage outflows. We are also using more novel techniques such as process mining and codebased techniques such as web scraping, which enable us to look at patterns from large datasets that would otherwise be quite inaccessible. In our work on BBC savings and reform, this enabled us to look across schedule listings quite easily and identify the volume of repeats that are there. It is enabling us to look quite insightfully through over 5,000 consultation responses that we have received in work we are doing on child maintenance and pull out the patterns and themes that are coming through in those responses in a way you just could not do manually.

In terms of process mining, that is something we continue to use to look at bottlenecks or challenges in operational processes such as caseworking systems. We used that when we were looking at the Windrush compensation scheme to see how the cases were progressing through and identify things such as the number of cases being sent back for rework. It really deepens what we are able to draw out.

Q21 **Chair:** To do that work, you have had to buy in people from outside. How have you afforded that? If you are a commercial expert, a risk expert or a digital expert, you must be very much in demand in the operation market?

Rebecca Sheeran: It is a bit of a mix. We have brought in some experts from outside, but, particularly in data analytics, we are able to grow our own as well. It is a little bit of a blended model.

Gareth Davies: The NAO is a strong brand. If you are interested in applying these skills to some of these big public policy challenges, it is one of the best places you can do that. We stand out in the market, if you like, because there is only one of us. From some of the feedback that we have had about why people have joined us, including from banks or data organisations and so on, it is their level of interest in the work.

Q22 **Chair:** They would be happy to take a pay cut, because the work is interesting.

Gareth Davies: They would be happy for it at least to be not a big increase. People have different priorities at different stages in their career. The reassuring thing is that we have attracted all sorts of different people with different motivations successfully to a number of these posts in the last two years. That is showing signs of continuing, which is good news.

Chair: Certainly, we have noticed it on the Committee, in terms of having people with expertise. It is very interesting. It was particularly interesting to hear what you were saying about financial instruments, because that is something that we, as a Committee, value your expertise on. It is quite hard for laypeople like myself, who are not from an accountancy background, to get our heads around.

Thank you very much indeed for your time. We will pass on our comments to the Public Accounts Commission, which will be meeting on Tuesday. Myself and Peter Grant are on that Commission, so you might hear some of our questions again there. Thank you very much indeed.