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## The National Audit Office, the Public Accounts Committee and the risk landscape in UK Public Policy Discussion paper [or working paper, etc.]

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# The National Audit Office, the Public Accounts Committee and the Risk Landscape in UK Public Policy

Patrick Dunleavy, Christopher Gilson,  
Simon Bastow and Jane Tinkler

**October 2009**

### **The Risk and Regulation Advisory Council**

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### **About the authors**

LSE Public Policy Group undertakes pure and applied research, policy evaluation and consultancy for government bodies, international organizations and major corporations active in the fields of policy evaluation, public management, budgeting and audit, and e-government, survey or focus group research, public opinion, and the design of election systems.

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*This work was commissioned by the Risk and Regulation Advisory Council.*

*The contents are the responsibility of the authors.*

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# Executive Summary

1. The National Audit Office (hereafter NAO) and the Committee of Public Accounts in the House of Commons (hereafter PAC) are the two key institutions in the state-audit framework in the UK and English central government. They play important roles in defining the 'risk landscape' for public policy-making, both in the sphere of government and regulation and in wider society in general. This paper explores how the two institutions inter-relate with one another in the area of risk.

2. NAO is the UK's Supreme Audit Institution (SAI). Although since devolution it also works alongside Audit Scotland, the Wales Audit Office and the Northern Ireland Audit Office. Within England NAO has an important turf-boundary with the Audit Commission in respect to local authorities, police forces and the NHS. The head of NAO is the Comptroller and Auditor General (C&AG), currently Amyas Morse. NAO has two key roles: first, it undertakes financial audits of central government accounts continuously, from which it published reports on a yearly basis; and second it produces around 60 value for money (VFM) audit reports a year on selected issues and policies. All VFM reports take government policy as read and focus on how it is being implemented. Most reports are assessed in hearings by PAC and it is these that primarily define the risk landscape for senior civil servants. VFM studies typically cost on the order of £300-400,000 and take six months to a year to complete.

3. All VFM reports must be cleared by the Department or body that is under investigation in order to prevent any unagreed facts going in front of PAC; departments' amendments often serve to 'blunt' NAO's criticism, creating blander and sometimes euphemistic language. At the same time, NAO is an expensive operation costing £73.9 million a year and employing 900 staff. A key part of NAO's legitimacy in the VFM role depends on its ability to generate financial savings to departments that are at least 9 times greater than NAO's costs. In 2007 NAO claimed nearly £600 million of financial saving were achieved.

4. NAO is a parliamentary and not a government agency, but it is free (by statute) to pursue an audit agenda and report publicly without external influence, even from MPs. The Public Accounts Commission acts as the commissioning body for NAO, and approves its finances and oversees its governance arrangements. Following revelations about the expense claims of the former C&AG (Sir John Bourne) by *Private Eye* magazine in 2007, the Public Accounts Commission asked John Tiner to review NAO's governance structures. As a result of his recommendations, a nine member board was created for NAO, with its own Chairman (currently Andrew Likierman), and the C&AG will be limited to a ten-year term of office. (Previous C&AGs served an initially undefined term until their retirement, in Sir John Bourne's case lasting for 20 years.)

5. The C&AG agrees a yearly programme of reports for review with the PAC. Within PAC the most influential figure is the Chairman, currently Edward Leigh MP. By convention the Chair is always drawn from the main opposition party. Once a VFM study is published by NAO, in just under three quarters of cases PAC then takes the report and conducts an oral evidence session. Here Permanent Secretaries and other senior civil servants are questioned by the Chair and committee members about the programme in question. Several months after this, PAC produces a report of their findings. PAC reports are written by NAO for the PAC Chair who exerts a good deal of influence on their judgements. PAC reports are not constrained by the clearance process applied to VFM studies, and hence they are often franker in their criticisms. The final stage of the VFM process is that the government must formally reply to PAC reports in the form of a published Treasury Minute, in practice written by departments responding to the criticisms and recommendations made. Typically, departments accept 93 per cent of PAC's recommendations. For the VFM reports that do not go to PAC or have a PAC report, there is no Treasury Minute.

6. The number of NAO reports averages 56 per year, but varies with the length of the parliamentary session. For instance, there were 32 reports produced in the 2004-2005 session (curtailed due to the election in 2005) and 84 in the 2005-2006 session. Approximately 70 per cent of NAO's VFM reports are reviewed by the PAC: on average the Committee handles 40 such reports per parliamentary session. On average, 25 of these reports are from the current parliamentary session, with the remainder made up from the previous NAO session or sessions.

7. On average, PAC itself produces 17 reports per 100 days of a parliamentary session. Delays can result when selecting PAC members at the beginning of a new Parliament (of around 38 days on average). Revised Commons reforms may reduce this initial lag-time from 2010 onwards. PAC hearings engage a large number of witnesses, nearly 1,250 between 2003 and 2008, three quarters drawn from government departments and NAO, around a fifth from public bodies and non-ministerial departments and the small remainder from executive agencies.

8. NAO and the PAC are highly influential bodies with government and within wider society because of their high media profile. Their reports cumulatively inform and define media discourses about risk based innovation within government, and about the risk of failures for large and often costly programmes. Research reported here shows that NAO attracts over 1,000 mentions in the UK press annually for certain key words. The PAC has interest levels in the low 100's, and this mostly focuses on the most vigorous pronouncements of the Chair, Edward Leigh, who most often handles broadcast coverage of NAO/PAC work. NAO and PAC are influenced by a number of often subtle factors. Government policy plays an important role as does the 'agenda' of MPs who lobby the PAC and the most pressing concerns of PAC members. Treasury is also influential through its budgetary role. There is some NAO influence from large private audit companies (who undertake some of the financial audit work), from management consultancies (of which some of the largest serve

as NAO's 'strategic partners' in undertaking VFM work), and from professions and academics in particular issue areas. (LSE Public Policy Group also served as an NAO strategic partner from 2003 to 2009 and has worked for NAO since 1996.)

9. Four main types of risk are frequently considered by NAO and PAC:

- Major project risks
- Administrative risks
- Overall budgetary and financial management risks; and
- Regulatory risk

We cover each of these in detail in the main report.

# Chapter 1:

## The National Audit Office



# Chapter 1:

## The National Audit Office

1.1 NAO has a statutory responsibility under the *National Audit Act 1983* to examine three areas of the operation of government departments and agencies: economy, efficiency and effectiveness (the three 'E's'). Like other Parliamentary agencies NAO operates outside of the civil service and regular Treasury control processes. With a budget set by Parliament NAO is independent of the government of the day and its 900 staff are not civil servants (although their pay and conditions of service are closely similar). However, a key corollary of this independence is that NAO may not examine the merits of governmental policy in its VFM studies or financial audits. Instead it must restrict its analysis to focus only on how well those policies have been implemented.

1.2 The Comptroller and Auditor General (C&AG) is head of NAO and is a very powerful figure in defining how it operates, known internally by officials as 'the Boss'. He or she is an Officer of the House of Commons, and is appointed by the Queen, moved by an address from the Prime Minister, with the agreement of the PAC Chairman (always drawn from the main opposition party). As the C&AG is appointed by the Queen, they can similarly only be dismissed by the Queen before their term of office expires, on an address from both Houses of Parliament (Public Accounts Commission, 2008). If the C&AG wishes to resign, this must be done in writing to the Prime Minister. Until 2009 C&AGs had no term of office and could serve until they decided to retire. This made the C&AG near irremovable. However, the role is currently in a period of change. From January 1988 to January 2008, Sir John Bourne held this post. He was succeeded by an acting C&AG (Tim Burr) for just over a year, and then by the current C&AG, Amyas Morse, the first to have a defined single non-renewable term of 10 years.

1.3 A little-known body called the Public Accounts Commission (TPAC) is the commissioning body for NAO. By convention the Commission is chaired by the leading or oldest government MP sitting on the PAC (currently the Rt Hon Alan Williams) as a counter-weight to the opposition Chair of PAC. The Commission's role is to approve the finances of NAO and to oversee its governance. According to statute, the Commission consists of the Chairman of the PAC, the Leader of the House of Commons (currently Harriet Harman), and seven other members of the House of Commons appointed by the House (ministers are excluded). It is the body which oversees the auditing of the auditors. While the Commission does approve NAO budgets, the C&AG has statutory discretion over audit work, so that the Public Accounts Commission never involves itself with the day-to-day administration and operations of NAO.

1.4 While rather limited in its oversight of NAO, the Public Accounts Commission can query NAO budgets, which the Office negotiates and agrees with the Treasury. The Commission has recently been concerned at levels of underspending by NAO. This extract from the July 2008 Commission hearing to consider of NAO's corporate plan for 2009-10 to 2010-11 is illustrative:

*AUSTIN MITCHELL (Commission Member):*

*... We've been consistently promoting a series of 6 per cent annual increases for NAO, which I think is important for its work. The Treasury is always grudging. It's grudging about virtue as well as vice, but it's worrying to think that, you know, these haven't been spent, because I always believe in throwing money at problems and it makes me wonder if either you're not pushing things hard enough, you're not ambitious enough, you're not aggressive enough, you're not employing enough staff. I mean, what is the problem? Has there not been enough for you to do or has there been a problem in getting the competent staff to do it? Why is it under-spent?*

*(Corrected Transcript of TPAC Meeting on 2 July 2008)*

1.5 NAO produces financial audit reports on an annual basis where it certifies government departments' accounts. In 2008, NAO audited 462 government accounts. In this role, NAO promotes a culture of robust financial management practice in government departments and agencies. Alongside financial audits, NAO undertakes VFM reports on specific government departments and their programmes, projects and activities. In practice, VFM reports are mainly published from October to June to fit with the Parliamentary session timetable. NAO has a large pool of government organisations which they can potentially audit regularly, spanning the 15 main ministerial departments in Whitehall and around 135 other major agencies and NDPBs (non-departmental public bodies). In 2007 the Office looked at projects valued at over £450 billion. NAO also provides limited support to some Parliamentary Select Committees apart from the PAC (16 in 2007), mainly in the form of briefings and reports addressing departmental performance. While currently NAO is limited to UK and English central government in its audits, there is a possibility that there may soon be a role for it in auditing publicly funded companies, such as the large banks with new majority government financial stakes, for example. Its role has recently expanded in relation to auditing both the BBC and the operations of the Royal Household that draw on government funding. However the outcome of discussions about NAO's role vis-à-vis the newly nationalized banks remains to be seen.

1.6 NAO spent £88.5 million on its operations in 2007. It also undertakes fee paying audit work, from which it earned £17.8 million in the same year. By improving government efficiency and achieving other savings NAO aims to 'save' £9 for every £1 spent on its budget. (Previously this used to be an 8:1 ratio.) In 2007 the Office claimed to have saved the government £544.2 million from its VFM audits, and £53.3 million through its financial audit and good governance work – numbers that are negotiated with the Treasury. In 2007 (as every year) the 9:1 ratio was clearly achieved if the total resource requirement of £70.7 million used – the exact amount is actually £9.28 per £1 of resources required. Yet NAO's total departmental audit function brings it into contact with programmes valued at £450 billion annually. Comparing this amount with the savings achieved suggests that NAO saves £1 for every £686 of government money examined, or 0.15 per cent of expenditure annually.

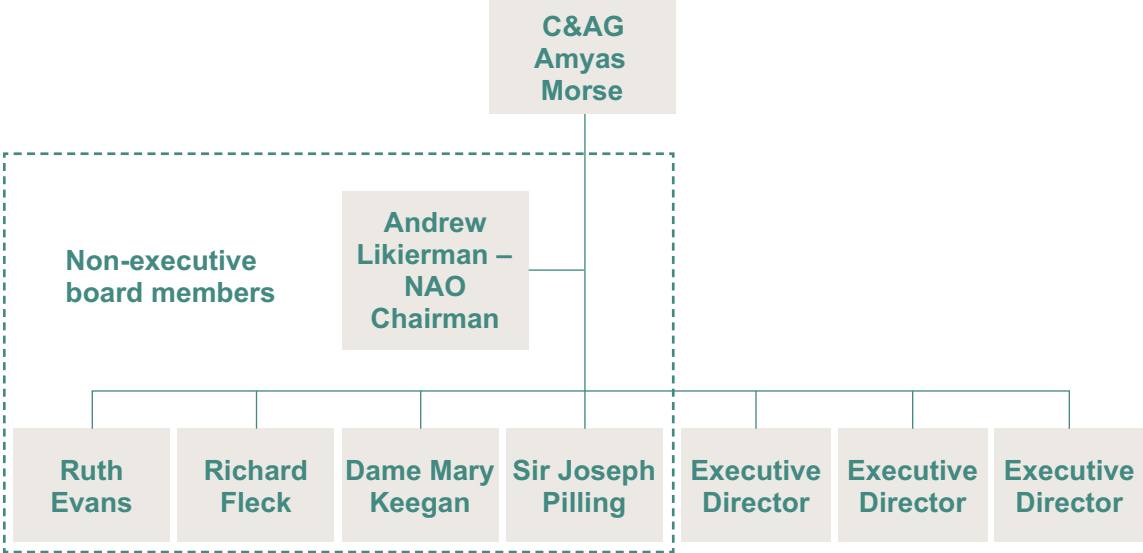
1.7 In July 2007, after a large amount of media interest in the travel and subsistence expenses of the C&AG, the Public Accounts Commission (TPAC) decided to review corporate governance in NAO, to ensure that it followed best practice. This report was

undertaken by the Chief Executive of the Financial Services Authority, John Tiner, and published in February 2008 as the Tiner Review. The Public Accounts Commission produced their response to the report in March 2008 as their Fifteenth Report, where they recommended significant changes to NAO's governance structure. The report proposed the creation for the first time of an NAO Board, on which the C&AG would sit as Chief Executive, with a non-extendable term of 10 years, in order to prevent the association of NAO with one particular C&AG for too long a term. The Board would have a Chair, who would be non-executive and have a three year term, renewable once. The Chair would be appointed in the same way as the C&AG, by the agreement of the Prime Minister and the Chair of the PAC, and would be a crown appointment. The Chair role is largely internal in focus, with the post holder speaking only about governance matters, rather than the NAO's audit programme or reports.

1.8 The Constitutional Reform and Governance Bill, which was presented to parliament for its first reading on 20 July 2009, states that NAO is to be constituted as a corporate body, with a board consisting of members with expertise in government efficiency and other savings, five non-executives including the Chair, and four executive directors, including the C&AG. The appointment of the non-executives is approved by the Public Accounts Commission, and their main role is to contribute to the Board's strategy development, corporate assurance and governance objectives. The time commitments for non-executive board members are envisioned to be in the order of two days per month, with a yearly remuneration of £20,000 for this work. On 1 January, 2009, Andrew Likierman was appointed as Chair of NAO Board, and on 20 May the Public Accounts Commission appointed Ruth Evans, Richard Fleck, Dame Mary Keegan and Sir Joseph Pilling as non-executive directors of the National Audit Office. Figure 1 shows the new governance arrangements as of June 2009.

1.9 NAO now uses outsourced contracting for its VFM studies to a far greater degree than in the past. In 2005-06 contracted input made up about 20 per cent of the Office's budget, and 70 per cent of VFM studies in 2003-04 used outside assistance, rising to 80 per cent in 2004-05 (Lonsdale, 2008). Following on from this, NAO has developed a number of long-term 'strategic partnerships' with external contractors providing a variety of services, from short reports such as literature reviews, research work for VFM studies, or entire VFM studies.

Figure 1: Governance Structure of NAO at June 2009



# Chapter 2:

## The Public Accounts Committee

## Chapter 2: The Public Accounts Committee

2.1 The Committee of Public Accounts dates back to a House of Commons standing order from 1862, which reads: *“That there shall be a Standing Committee of Public Accounts; for the examination of the Accounts showing the appropriation of sums granted by Parliament to meet the Public Expenditure, to consist of nine members, who shall be nominated at the commencement of every Session, and of whom five shall be a quorum”* (Committee of Public Accounts, 2007). Since 1983, the PAC’s primary role has been to examine NAO Value for Money (VFM) reports and to take oral and written evidence from Permanent Secretaries and Accounting Officers, although it also considers key matters arising from NAO financial audits.

2.2 The PAC has sixteen members, and a quorum of four. In the past members are nominated at the beginning of each Parliament, on the basis of motions made by Ministers. No minister or front-bench spokespersons can be a member of PAC, although the Financial Secretary at the Treasury can attend by right (although he or she rarely does so). Changes can be made if members become ministers or opposition spokespersons. The Committee make-up reflects that of Parliament, currently with 9 Labour members, 5 Conservative members, and 2 minority party members (at present from the Liberal Democrats). From the new Parliament in 2010 it is possible that PAC members may be elected by MPs as a whole instead of being nominated by Whips through ‘the usual channels’.

2.3 Attendance by MPs at committee sessions can vary and it tends not to reach 50 per cent, on average. Figure 2 summarises recent attendance during the 2007-08 session, and Figure 3 looks at member attendance over the last five years. One of the Chair’s key roles is to keep their members active and involved.

Figure 2: PAC Members' Attendance at Committee during the 2007-2008 session

Committee Member	Meetings Attended	Total Meetings Held	Percentage Attended
Leigh, Mr Edward (Chairman)	57	63	<b>90</b>
Mitchell, Mr Austin	50	63	<b>79</b>
Bacon, Mr Richard	46	63	<b>73</b>
Hill, Mr Keith (added 8.11.07)	41	62	<b>66</b>
Williams, Mr Alan	39	63	<b>62</b>
Griffiths, Mr Nigel (added 8.11.07)	34	62	<b>55</b>
Davidson, Mr Ian	33	63	<b>52</b>
Pugh, Dr John	31	63	<b>49</b>
Wilson, Mr Phil (added 8.11.07)	26	62	<b>42</b>
Touhig, Mr Don	26	63	<b>41</b>
Dunne, Mr Philip	25	63	<b>40</b>
Smith, Ms Geraldine (added 8.11.07)	22	62	<b>35</b>
Curry, Mr David	20	63	<b>32</b>
Browning, Ms Angela	16	63	<b>25</b>
Burstow, Mr Paul (added 29.1.08)	10	45	<b>22</b>
Eagle, Ms Angela (added 19.11.07)	1	60	<b>2</b>
Brooke, Ms Annette (discharged 28.1.08)	0	17	<b>0</b>
<b>Average attendance (%)</b>			<b>45</b>

Source: Computed from House of Commons Sessional Return 2007-2008.

**Figure 3: PAC Members' Session Attendance 2003-2008**

Session	Total Number of Meetings	Overall attendance at meetings (%)	New members added	Turnover of members during this session (%)
<b>2003-2004</b>	55	49	4	25
<b>2004-2005</b>	25	41	0	0
<b>2005-2006</b>	68	49	5	31
<b>2006-2007</b>	53	47	5	31
<b>2007-2008</b>	63	47	-	-

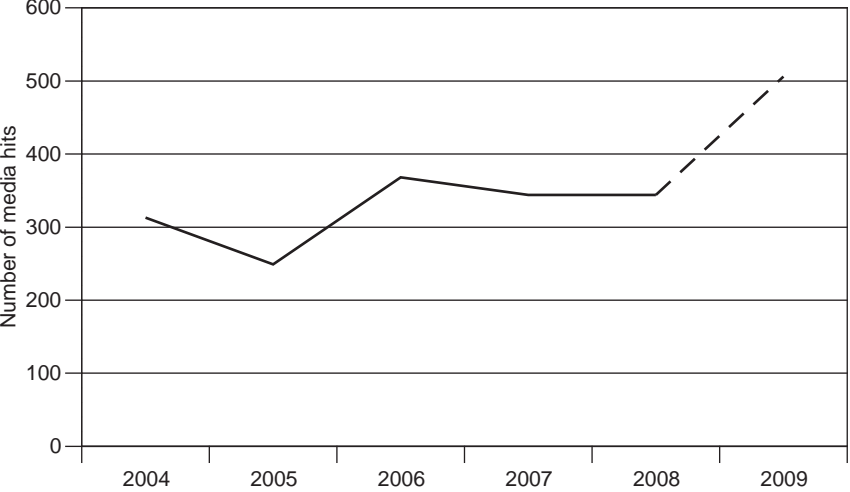
Source: Computed from House of Commons Sessional Returns. Members added always replaced MPs discharged.

2.3 By convention the Chair of the PAC is always a member of the opposition. The current Chairman is the Right Honourable Edward Leigh MP, who has been in post since 2001. Prior to this David Davis held the post. As can be seen in the Figure 2, the Chairman will tend to attend more PAC sessions than any other member, reflecting the fact that he or she is highly influential in its work and in setting the agenda for NAO investigations. In fact, the PAC Chair occupies a critically important but little known constitutional position. For instance, there are large parts of the UK defence and intelligence budgets on which financial management issues and the progress on contracts is reported by NAO to the PAC Chair on a secret basis. Thus the PAC Chair alone is often the main person outside government to know about such matters, and they are not reported to PAC or to Parliament more broadly. The PAC Chairman also occupies a sensitive position. Both he and the C&AG receive a large number of complaints and allegations about conflicts of interest, lapses from good financial management practice or corruption in government and government contracting. On these issues NAO will sometimes undertake investigations and report to him confidentially, and many matters are considered by the Chair and C&AG alone.

2.4 The PAC Chair often has a tendency to be publicly outspoken about departmental failings revealed in NAO reports, and this criticism is often reflected in the media upon the publication of a PAC report. The Chair's criticism are always much starker and phrased in more populist terms than the guarded judgements of NAO itself, because the Office must clear all its reports in every factual respect with the departments or agencies concerned. NAO is thus often rather constrained in its language, whereas the PAC Chair has no such constraints. A LexisNews search of UK media outlets for the past five years yields over 1,800 results for the NAO and the Chair's name – see Figure 4. Given that there have already been 204 references this year, we extrapolate that there may be as many as 500 references by years end.



Figure 4: News coverage for NAO reports 2004-2009



Source: LexisNews Searches. Search terms were "NAO" OR "National Audit Office" AND "Edward Leigh".

# Chapter 3:

## The VFM Report Process

## Chapter 3: The VFM Report Process

3.1 Every year NAO develops with Whitehall departments and major agencies a two-year forward programme of potential reports, which is then published and usually followed through with a high level of consistency. There is flexibility built in to this programme, so that topical issues can be examined. Topics have to be agreed by the departments concerned and there are often delicate negotiations to spread the load of 60 VFM reports a year across a range of ministries and other bodies, to achieve a fair burden-share. All final decisions on what reports are undertaken rest with the C&AG. The areas for VFM study are strongly influenced by an ongoing VFM risk assessment of department groups from NAO teams, who also look at previous work programmes (to return to topics meriting a re-look). Suggestions from MPs and PAC members (especially the PAC Chair) are often influential. The list of topics may also be influenced by suggestions from NAO's strategic partners (involved in carrying out VFM work) and other interlocutors.

3.2 VFM work is made up of three parts, planning, investigation and reporting. At the planning stage, VFM teams will assess the appropriateness of performing a VFM study in a certain area, and will then draft a business case for review by the C&AG. Business cases summarise the background motivation for performing the study, its intended scope, likely recommendations and its impact. The C&AG is given three options for the focus of each study to choose between, as well as the option to end the research at that point. The business case will outline costs and timescales for the completion of the study (generally of the order of £300,000 to £400,000 per report). The case will also contain an assessment of the risks to the project, such as timeliness, cost, participation by the department involved, clearance issues, political risks and any other factors that might impede the effectiveness of the study. VFM teams consult departments at this stage and negotiate their approval for the study.

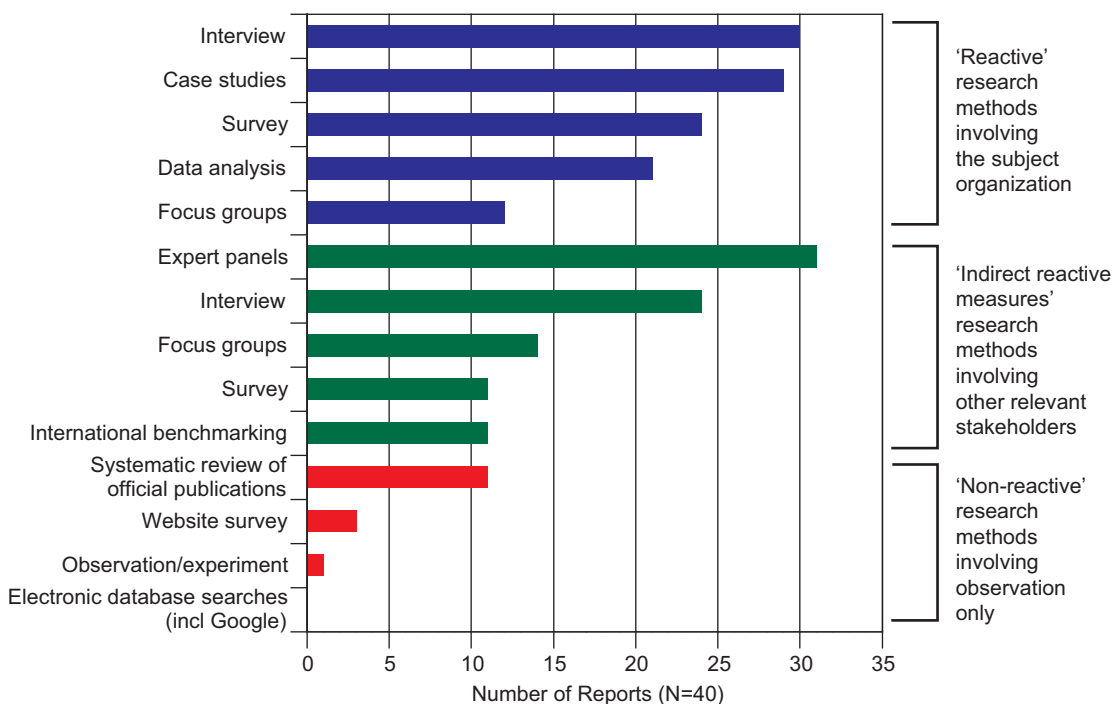
3.3 Once the C&AG's go ahead is received studies typically take between six months and a year to complete (though occasionally less or more than this). Figure 5 presents a general picture of timescales for a typical NAO report. Reports are generally on the order of 40 or 50 pages in length, though study teams have been aiming to reduce this to nearer 20 pages over the last two years. Reports need to be written for interested readers who may not necessarily be familiar with the subject material.

**Figure 5: General timetable of an NAO study**

Preliminary work (usually prior to submission of business case)	Month 1
Piloting and preparation if necessary	Months 2-3
Fieldwork period	Months 4-5
Draft report to Assistant Auditor General	Month 6
Finance Director clearance achieved	Month 8
Departmental Accounting Officer clearance	Month 9
C&AG approval & publication	Month 11

3.4 The methods used in VFM studies often vary somewhat with the area under investigation. In our Hot Review evaluation work, PPG has found that there seems to be a fairly common approach to methods in NAO studies. Study teams tend to apply very similar methods for each project, rather than taking new approaches that might be more appropriate for the individual circumstances of the organisation or programme that is being studied. Study teams are small and they tend to focus on using reactive measures like surveys, interviewing and visits, even though these can be more expensive and time consuming and generate less objective information compared to data-rich 'non-reactive' measures (such as analysing objective data or using web census methods). In 2008, PPG conducted a non-reactive academic review of 40 NAO cross-government or relatively broad issue-specific reports published since early 2004. Figure 6 shows the results of this review, indicating the relatively light utilisation of 'non-reactive' methods.

**Figure 6: Methods used in 40 broader NAO studies 2004-2008**



3.5 All VFM reports must be agreed (word for word) prior to publication by the C&AG and the Accounting Officer for the department concerned, normally the Permanent Secretary (Roberts and Pollitt, 1994). The rationale for this clearance process is that factual disagreements cannot go before the PAC, but only a fully agreed report. Clearance can often be a very fraught process, where the department disagrees with NAO's judgements. It can also be very time consuming, with many multiple redrafts, as departments seek to dull the critiques, or to dispute the findings of NAO reports. Sharma (2007) gives an in depth report of this process, discussing how a 2002 NAO VFM report into Waste Reduction was altered between draft stage and final publication:

*'For example, under the heading of 'Main Findings' in the report, the auditors had written:*

*The Agency is not meeting its target for dealing with licence applications within four months.*

*The Environment Agency amended this to read:*

*The Agency often needs to use legal provisions that allow it to ask operators for extra time in which to consider their applications for waste management licences.*

*And by the final published report, this had been changed to:*

*The Agency needs to look for ways of reducing the time taken to deal with licence applications.*

So what started as a stronger criticism of the Agency was softened in phrasing and the comment shifted from a specific observation about the failure to meet its licensing criteria to a vague suggestion for improvement' (Sharma, 2007, p. 299).

NAO and departments also have to agree that facts are correct prior to publication, in order to give the PAC the ability to accurately critique reports. The PAC members have traditionally felt that it is important for NAO to look closely at departmental facts and figures, because in their short and crowded sessions PAC clearly lacks the resources to undertake this kind of scrutiny itself.

3.6 At first sight the clearance process must seem to leave NAO vulnerable to departmental 'hold out', delaying reports until NAO caves in and accepts their re-wording. This possibility is made additionally serious by the fact that NAO's work programme operates on fine margins. If they are to generate 60 VFM studies in total, and 40 reports for PAC to consider in a year, NAO must work very swiftly and within tight time constraints. Partly because of this, NAO staff are also strongly incentivized to complete reports within the planned time periods and receive performance related pay increments where they are successful in doing so. Yet there are a number of factors that normally produce more consensual working, including;

- the professionalism of civil servants who want to account properly to Parliament;
- NAO's links to departments run through the Finance Director, who often has an interest in improving efficiency and understanding department processes;
- NAO reports are seen by the Treasury, who also share these concerns;

- NAO staff are generalists in the substantive policy areas they are investigating. So any criticisms or recommendations that VFM studies come up with tend to originate either within the department itself or in professional groups or contractors with which it interacts, meaning that there is some substantial backing for the point of view being advocated; and
- departments are aware that NAO staff control and influence media coverage of the report, brief the PAC Chair before evidence sessions and write most of the PAC report that follows. So a department that 'unfairly' or 'illegitimately' seeks to sanitize a VFM report may find that its tactics backfire later on in the process.

### VFM reports and the PAC

3.7 The majority of NAO reports are considered by the PAC. Three times a year, the C&AG discusses the upcoming work programme with the PAC, and makes recommendations about which reports he or she feels that the PAC should examine more closely. The PAC will then discuss these recommendations, but there is no formal record made of the discussion or the selection of reports. Figure 7 shows how many VFM reports NAO were produced in different years and the third column shows how many went to the PAC (ignoring here which session they were published in, because there is often a delay). The fourth column shows how many NAO reports are seen by the PAC in the year in which they were published. In general, about three quarters of all NAO reports will go to the PAC. As NAO is producing more, shorter reports the percentage going to PAC will tend to reduce since the Committee has a relatively fixed capacity to process business.

Figure 7: Reports undertaken by NAO and PAC 2003-2009

NAO Session	NAO VFM reports published	Number of VFM reports seen	Number of VFM reports seen in that year's PAC session	% VFM reports going to PAC
<b>2003-2004</b>	57	46	22	<b>81 %</b>
<b>2004-2005</b>	32	16	4	<b>50</b>
<b>2005-2006</b>	84	60	34	<b>71</b>
<b>2006-2007</b>	57	44	30	<b>77</b>
<b>2007-2008</b>	70	54	38	<b>77</b>
<b>2008-2009</b>	35	22	22	<b>63</b>
<b>Average</b>	<b>56</b>	<b>40</b>	<b>25</b>	<b>72</b>
<b>Totals</b>	<b>335</b>	<b>242</b>	<b>150</b>	<b>72</b>

Sources: NAO and House of Commons Sessional Returns.  
 Note: The 2008/09 session only shows reports up to 13 May 2009.

**Figure 8: NAO reports and PAC Output 2003-2009**

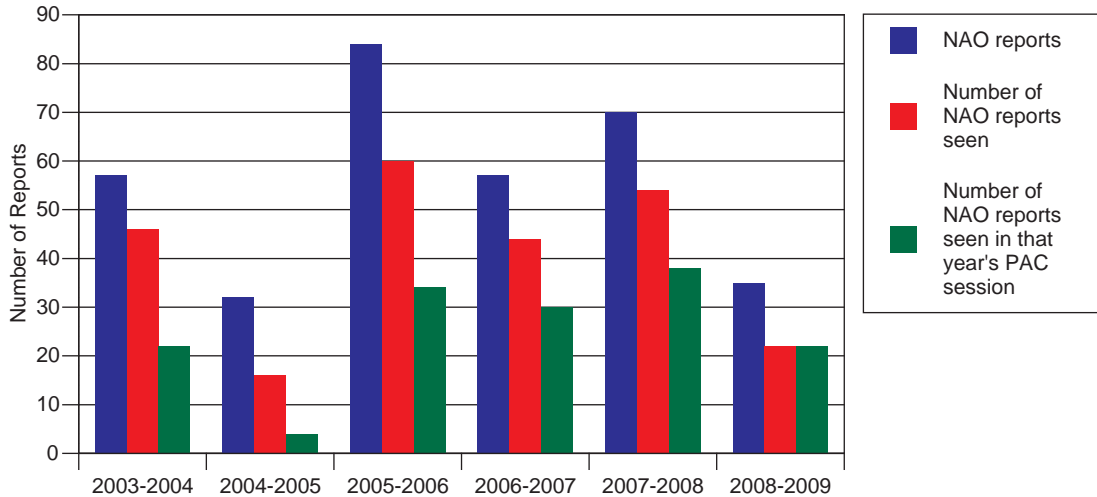
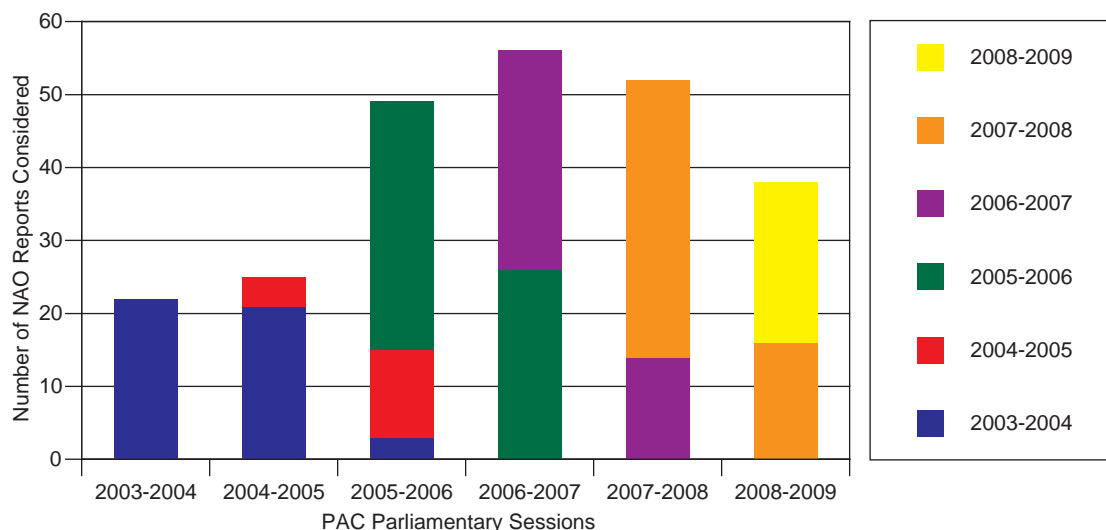


Figure 8 shows the number of NAO VFM reports produced per parliamentary year, as well as the number of those reports seen by the PAC in any PAC session. While these will mostly be seen in the same parliamentary session, some will be delayed to the following session, or even the one after that. The third column shows the number of reports that the PAC issues for each parliamentary year, so these will include VFM reports from previous parliamentary sessions. For example, in 2006-2007 NAO issued 57 reports; 30 of these were seen in the same parliamentary session by PAC, 14 were seen in the 2007-2008 PAC session, and 13 were not seen by the PAC. In that same year, the PAC saw 56 reports, 30 from the 2006-2007 NAO session, and 26 from the 2005-2006 NAO session. Figure 9, below, shows this relationship further. In each year, save for 2003-2004, the PAC dealt with some of that year's NAO reports, and also those from the previous year, or even earlier years. Those NAO reports from that year not dealt with would likewise carry over to the PAC session in the following year.

**Figure 9: Number of NAO reports looked at by the PAC by NAO publication year and PAC parliamentary session**



**Figure 10: PAC Statistics 2004–2009**

Session	Parliamentary Session Length (days)	Start of Session	First PAC meeting	Elapsed time (days)	Number of reports per 100 days of parliamentary session
<b>2003-2004</b>	257	26-Nov-03	02-Dec-03	5	8.6
<b>2004-2005</b>	98	23-Nov-04	12-Jan-05	37	25.5
<b>2005-2006</b>	391	11-May-05	31-Oct-05	124	12.5
<b>2006-2007</b>	250	15-Nov-06	15-Nov-06	1	22.4
<b>2007-2008</b>	277	06-Nov-07	16-Jan-08	52	18.8
<b>2008-2009</b>	126	03-Dec-08	11-Dec-08	7	30.2
<b>Total/Average</b>	<b>1436</b>			<b>37.7</b>	<b>16.9</b>



3.8 We standardised the work rate of the PAC based on parliamentary session, and used the metric of number of reports produced per 100 days of session. The results are presented in Figure 10 which shows that PAC's work rate in 2003-4 was relatively low, with only an average of 8.6 reports produced per 100 days, but this was followed by a large turnover of reports in the relatively short 2004-2005 session. We also looked at the time elapsed between the opening of parliament and the first evidence meeting of the PAC. There is a clear link between the length of time taken by the PAC to 'get started' and its work rate. In the 2005-6 session, which was 391 days long, the work rate was only 12.5 reports per 100 days, possibly due to the 124 day gap between the opening of parliament and the first PAC meeting.

3.9 While the majority of VFM reports do go to the PAC for scrutiny, around a quarter do not. Apart from the limits on PAC's available time and energies, there are a number of reasons why a report may not be taken:

- The programme or agency looked at might be too low in financial importance to function well as a PAC topic.
- The topic may be seen as uninteresting or the conclusions as rather boring by the media, especially on issues unfamiliar to the general public.
- The report may be overly technical; there may not be the specialist knowledge within the PAC to be able to understand the content and the importance of the report.
- VFM studies that get held up in clearance or for other reasons may then miss the PAC's relatively tight hearing schedule. The older a report gets, the less likely it is to be taken.

3.10 Prior to the Committee hearing, NAO study teams will brief the Chairman and the PAC on which questions they should ask, and which lines of inquiry should be followed (Sharma, 2007). At this stage in effect, study teams can be more frank about or critical of departments and agencies than they were able to be in their cleared reports. Briefings to the PAC might typically include: a summary of the NAO report; a list and synopsis of the issues the study team feels that the PAC should explore; notes on witnesses; and key questions to ask witnesses and their expected answers as well as further supplementary questions for witnesses. The PAC Chair will always start by asking a penetrating series of questions, operating initially from a list of NAO-prepared questions, although he or she will select within it and often adapt the wording. The questions will be addressed to a number of witnesses, usually the Permanent Secretary of the department concerned plus some senior colleagues, or Chief Executives and Directors of agencies or NDPBs whose programmes are under consideration. Single department reports may have only two witnesses, but often three or four, while cross-governmental studies may have up to five or six. The witnesses from departments have also normally been briefed in general terms by NAO on the opening line of questioning. Ordinary PAC members used to see a long list of other possible questions but now do not do so. In recent years PAC Members have sometimes asked to be briefed by the NAO study team as a group or more rarely individually. Often PAC members may also be briefed by their own researchers (who are often parliamentary interns from the LSE) who digest and interpret the most important parts of the reports for committee members. The senior government-side member usually asks the concluding questions of the PAC session.

3.11 Figure 11 lists the number of witnesses heard by the PAC from each Department for each year from 2003 to 2008. NAO and Treasury lead the list as they have a large involvement with the PAC. (Appendix One contains a further breakdown of witnesses from Executive Agencies and other public bodies and non-ministerial departments.)

3.12 Several months after the Committee's oral evidence session, the PAC will produce a report of its findings and recommendations. Starting from the NAO's report and drawing on what was said in the evidence session and any further information submitted by the department or agency in response to PAC members' queries, it is the PAC recommendations that are authoritative. Following this, under the 'Osmotyerly' rules the department then has two months to reply to the points made by PAC.

3.13 The Treasury Officer of Accounts (TOA) Team at the Treasury administers the Treasury Minute process, and instructs departments to respond, asking them to send drafts to the TOA and to the Treasury Expenditure Team (*Guide to Scrutiny of Public Expenditure*, 2004). The minutes are then approved by the Prime Minister's Office, the Financial Secretary, and by the Whips' Office, before being published. Additionally, departments also publish their Treasury Minute responses in their yearly annual reports, as well as a summary of their progress in addressing the PAC's points since the Treasury Minute was published. Figure 12 gives an idea of the impact that PAC reports have on government departments. While data is only available prior to 2005, it is likely that there are a similar percentage of accepted recommendations at present. (NAO have told us they no longer collect information on the acceptance rate of recommendations.)

Figure 11: PAC witnesses by department from 2003 to 2008

Department	2003-4	2004-5	2005-6	2006-7	2007-8	Totals
National Audit Office	74	29	91	52	63	309
HM Treasury	56	24	79	52	62	273
Department of Health	13	7	29	7	6	62
Ministry of Defence	11	4	18	3	6	42
Department for Environment, Food and Rural Affairs	9	5	9	3	3	29
HM Revenue and Customs			16	5	6	27
Department for Education and Skills	9	5	7	3		24
Home Office	7	4	9	1	2	23
Department for Work and Pensions		3	10	3	5	21
Department for Transport	5		6	4	3	18
Department of Trade and Industry	4	3	8	2		17
Department for Culture, Media and Sport	2	1	6	1	5	15
Office of the Deputy Prime Minister	6	4	2			12
Department for International Development	4		3	2	3	12
Foreign and Commonwealth Office	1		6		2	9
Department for Innovation, Universities and Skills				1	5	6
Cabinet Office	2			1	3	6
Department for Communities and Local Government				2	3	5
Department for Business, Enterprise and Regulatory Reform				1	4	5
Department for Constitutional Affairs	2	1	1			4
Department for the Environment for NI			3			3
Ministry of Justice					2	2
Department for Children, Schools and Families					2	2
House of Lords			1			1
Department for Energy and Climate Change					1	1
<b>Total Government departments (plus NAO and HMRC)</b>	<b>205</b>	<b>90</b>	<b>304</b>	<b>143</b>	<b>186</b>	<b>928</b>
<b>Executive Agencies</b>	<b>10</b>	<b>2</b>	<b>15</b>	<b>10</b>	<b>17</b>	<b>54</b>
<b>Total public bodies and non-ministerial departments (ex - NAO and HMRC)</b>	<b>82</b>	<b>36</b>	<b>85</b>	<b>23</b>	<b>38</b>	<b>264</b>

**Figure 12: PAC recommendations accepted 2003-2005**

Year	Percentage of recommendations accepted
2003	93
2004	94
2005	93

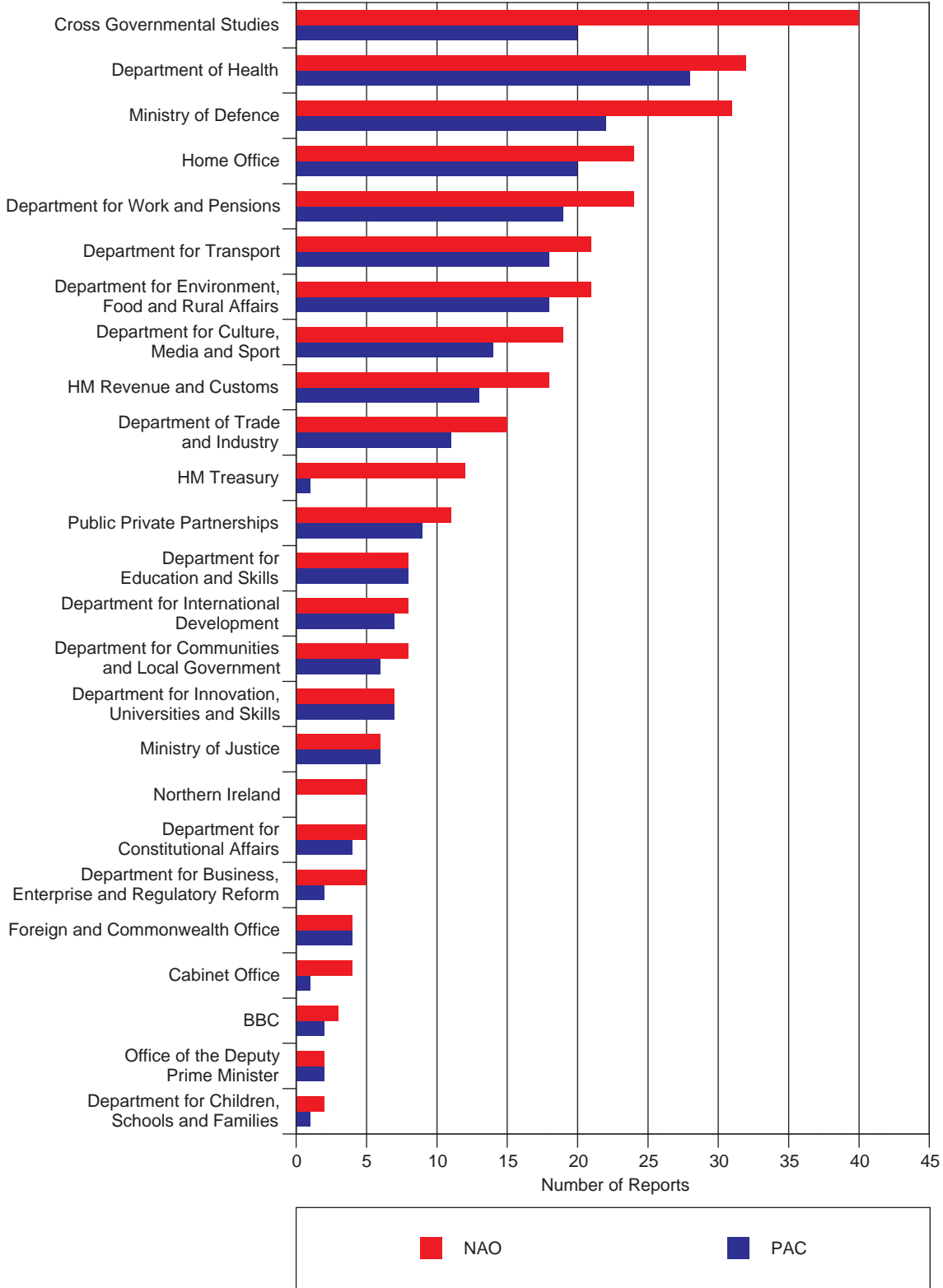
Source: NAO Annual Reports.

3.14 Following the publication of the Treasury Minute, NAO will then monitor departmental progress towards recommendations, and PAC may come back to the topic if the problems previously addressed do not seem to have gone away. NAO often uses monitoring of progress as a springboard for follow-up studies on very large programmes or central issues, especially large infrastructure projects such as the Department of Health’s National Programme for IT, or ongoing issues such as Animal Health or Dementia Care. These reports will include previous NAO and PAC recommendations in Annexes to any new report and highlight progress or otherwise in the intervening period. However, NAO finds it harder to return to smaller issues or organizations very often because of the limited number of study slots and the needs to achieve financial savings from its work.

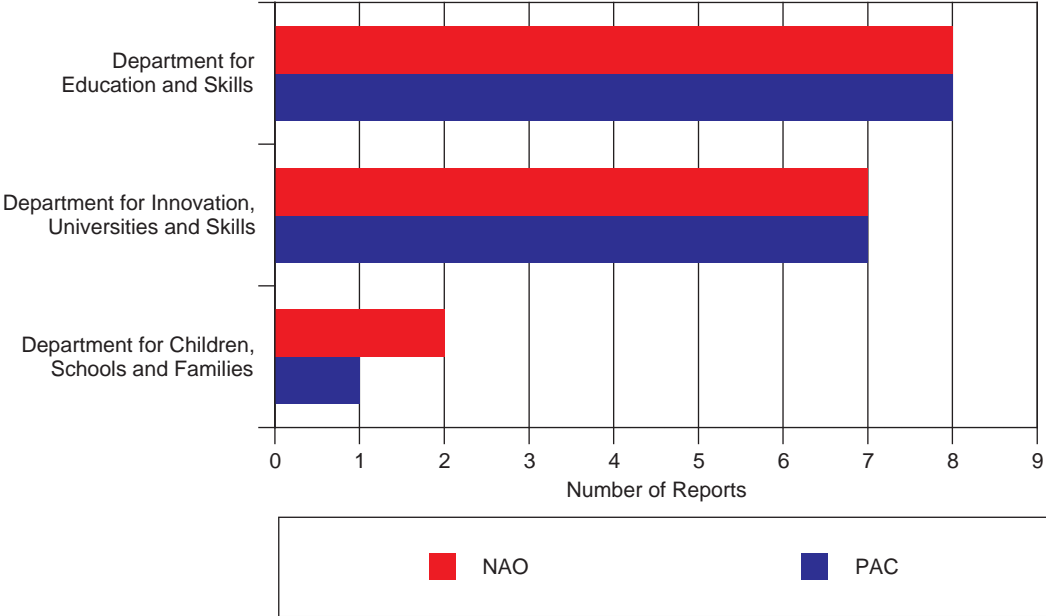
3.15 Using information provided by NAO and also taken from the House of Commons Sessional Returns, we have been able to look at the incidence of VFM reports by government department. Figure 13 shows quite vividly that some departments have a tendency to be reported on much more than others, and that the reports do not all filter through to the PAC at the same rate. While most (72 per cent) NAO reports go to PAC, the rate of PAC take-up is especially low for the large group of cross-governmental VFM studies, often because they tackle salient issues but ones that PAC members tend to find too abstract or not meshing with their constituents’ experiences. Such topics may also be ones which the PAC Chair or members do not see as very newsworthy. By contrast, the next biggest group of VFM studies in Figure 13 covering the Department of Health have an 88 per cent take-up rate by PAC.

3.16 If we disaggregate further some of the categories of reports, then it becomes clear that the PAC favours some types over others. Figure 14 shows the generally high rate for education based reports (83 per cent taken up by PAC on average). If we turn to cross governmental reports, shown in Figure 15, it is apparent that this is mainly skewed by NAO’s reports on EU Financial Management, Validation reports, and Audits of Budget Assumptions, which are rarely taken up by PAC. NAO’s reports on procurement and resource use have 100 per cent take-up rates, while those looking at efficiency, IT, innovation and the provision of services by government generally have a lower rate of take-up.

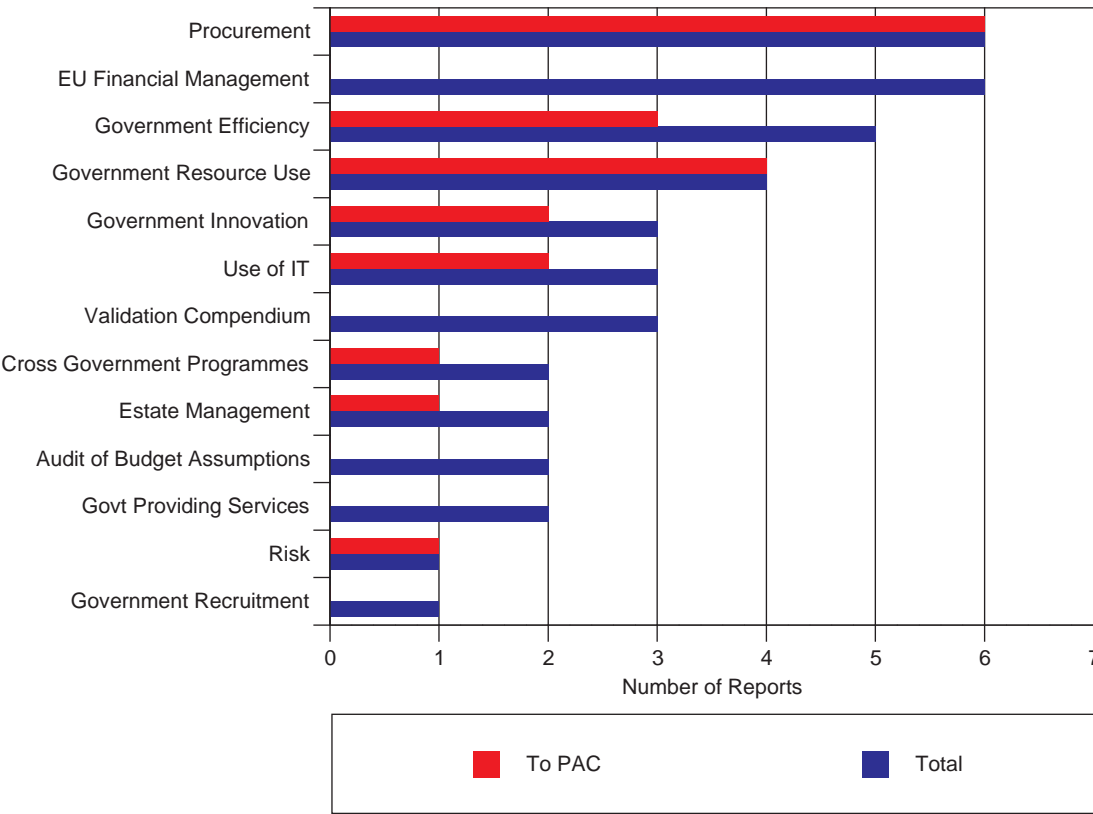
Figure 13: Total NAO and PAC reports by Departmental Area 2003-2009



**Figure 14: Education VFM reports 2003-2009**



**Figure 15: Cross Governmental reports and the PAC 2003-2009**



# Chapter 4:

The Impacts of NAO's VFM work and the PAC's scrutiny

## Chapter 4:

# The Impacts of NAO's VFM work and the PAC's scrutiny

4.1 In this section we focus on the controversies that can often surround NAO reports and their subsequent PAC follow-up. In July 2007 NAO published the report *Evasion of Vehicle Excise Duty*. One of its findings was that evasion rates of duty by motorcyclists had risen from 30 per cent in 2005 to 38 per cent in 2006. This was noted by the PAC in their report on the hearing in October 2007; where the PAC Chairman said of those who were evading tax: *'It is an appalling situation for law-abiding people when they know that an increasing number of people are just cocking a snook at the law, literally giving two fingers to the law, so all these law-abiding people have to pay their license...'*

The PAC published their report in January 2008, and this was widely covered in the media (BBC, 2008a), receiving a sceptical reception from motorcycle groups such as the Motor Cycle Industry Association. In February, however, the Department for Transport (DfT) published new statistics, which indicated that the actual rate of motorcycle tax evasion was only around 9.8 per cent. By the end of February, Edward Leigh had apologised to the motorcycling community (BBC, 2008b). In April, the PAC held a further evidence session with the Department for Transport and the DVLA (Driver and Vehicle License Agency). Their report that followed in June 2008 was highly critical, calling the Department "disingenuous" in its methodology and concluding that:

[the] 'fall in the motorcycle evasion rate from 45.9 per cent to 20 per cent between 2002 and 2004, followed by a rise to nearly 40 per cent over the next two years, is so improbable that the Department should have known there were serious errors in the surveys'.

NAO were also criticised for not scrutinising the Department's figures more closely (PAC, 2008).

4.2 Another report that was subject to controversy was the first NAO report in June 2006 into the National Programme for IT (NPfIT) in the NHS. Vigorously massaged by the Department of Health during clearance, the published report was variously described as a 'whitewash' (Wilkinson, 2006) in the media and heavily criticised at its PAC hearing. The PAC report, published in April 2007 lists 262 questions asked at the PAC session and contains over 120 pages of supplementary information from the Department of Health and contractors related to the NPfIT. During this PAC session, Greg Clark MP described NAO's report as follows: *'Sir John [Bourn], we have a conundrum here. In a year on the Committee I have read 62 NAO Reports. This is easily the most gushing and yet we know that the Report was published on the very last day that it could have been to be in time for this Committee because it had been, we assume, haggled over'* (PAC, 2007, Ev 6).



4.3 According to both the PAC report and to media sources (Collins, 2006) this report was subject to a lengthy clearance process, where NAO was essentially forced to tone down its criticisms of a programme that was overdue and facing escalating costs. For example, on the delayed patient record aspect of the NPfIT programme the NAO report states: 'Local Service Providers' delivery of the first phases of the NHS Care Records Service and the advanced integrated IT systems that are central to the long-term vision for the Programme will now be later than originally planned. Deployment of the national clinical record is now planned in pilot form from late 2006, compared to the original plan of December 2004, and in its full form from late 2007. In the interim, Local Service Providers have provided Patient Administration Systems; these are linked to the Spine for security, single sign-on, Choose and Book, Personal Demographic Services (PDS), Electronic Prescribing Service and together with other Programme systems, to support NHS organisations in urgent need of new or replacement IT systems. However, the plan remains for the entire implementation to be completed by 2010 in accordance with originally contracted timescales' (NAO, 2006 p. 6).

4.4 The subsequent PAC report treated the same subject, in a far more frank fashion, explicitly discussing Departmental performance, and focusing on important milestones that have been missed:

**'The delivery of the patient clinical record, which is central to obtaining the benefits of the programme, is already two years behind schedule and no firm implementation dates exist.** By now almost all acute hospital Trusts should have new NPfIT patient administration systems (PAS) as the essential first step in the introduction of the local Care Record Service. As of June 2006 the actual number was 13 hospitals. In June 2006 the Department wrote to us stating that by October 2006, there would be a further twenty-two. So far as we are aware, up to the end of February 2007 the number has increased by only five acute hospitals. The introduction of clinical as opposed to administrative software has scarcely begun; indeed, essential clinical software development has not been completed. The Department should develop with its suppliers a robust timetable which they are capable of delivering, and communicate it to local NHS organisations who may then have greater confidence as to when systems will be delivered' (PAC, 2007, p. 5).

4.5 Through its VFM analyses, audit work and select committee support NAO plays an important role in discourses about departmental spending and issues vital to the wider economy and to society. NAO and PAC do a relatively small amount of work on measuring their own impacts (beyond follow-up reports). However, the impacts of the whole VFM process that can and are being measured currently can be grouped into three main categories (Lonsdale, 2000):

- *Influencing government practices:* As discussed previously, PAC recommendations tend to have an over 90 per cent acceptance rate by government departments. Noticeable improvements in service quality and efficiency are claimed in NAO VFM studies, annual reports, and those of the audited departments.
- *Financial savings:* In 2008 NAO claimed £656 million worth of verifiable savings as impacts from its reports and programmes.

- *Impact on parliament:* In the 2006-07 parliamentary session, 63 PAC reports were discussed in the House of Commons, and 38 were discussed in the previous year. Reports by NAO and PAC are an invaluable source of information that can inform select committees' work and aspects of government policy. The VFM work of NAO (and by extension the PAC) have had financial impacts on departments, as well as social and economic impacts on wider society in general.

4.6 NAO reports can often advance work in certain policy areas. A VFM study will bring in new resources (including new surveys and data-gathering) and in responding to enquiries departments and agencies may leverage in more resources. Sometimes NAO and PAC have persuaded or compelled government bodies to provide them with information, often financial. For instance, in a 2001 report, *Tackling Obesity in England*, the study team were able to make an estimate of the total direct and indirect costs of obesity to the NHS and wider economy in England of £2.6 billion. Similarly, the NAO report *Department of Health Reducing Alcohol Harm: health services in England for alcohol misuse*, published in October of 2008, reported a figure of £2.7 billion annually for the cost of alcohol harm to the economy. Such estimates are often influential in putting the salience of issues into sharper focus.

## Media Coverage

4.7 Coverage of NAO studies, and therefore their wider impact beyond closed government circles, can vary greatly depending on the subject matter of the report in question. We took 10 reports, two from each year from the 2004 to 2009 parliamentary sessions, and ran LexisNews searches linking NAO, or the PAC Chair to the issue. [We used as search terms "National Audit Office" + report + name and/or keyword; "Public Accounts Committee" + report + name and/or keyword; and "Edward Leigh" + committee + report + name and/or keyword. Searching for PAC is hampered a little because the Committee is often only vaguely referred to in press or broadcast items as "a committee of MPs", or simply "MPs".] Figure 16 shows that some reports gain much more media coverage than others, often because the topic has been newsworthy already for a long time. Thus reports on Northern Rock (an issue in the current economic crisis) and the Chinook Mk3 helicopter procurement (which has relevance to MoD operations in Iraq) attracted a lot of interest. Others on sickness absence in the Department for Transport, or a failed PFI project at the National Physical Laboratory, were much less relevant to ongoing news stories and concerned much narrower issues. As can be seen in the Figure, some reports will have a relatively small number of recommendations, but will still elicit a large number of questions during its PAC hearing; and still others will have a large number of recommendations and have a relatively low level of media interest. It is still apparent that the PAC has a much lower profile than NAO.

4.8 We also undertook a further media review of various key terms relevant to the risks presented by projects covered by NAO and PAC over the last five years. Figures 17 and 18 show the results. Press mention of NAO often numbers in the hundreds, and different search criteria seem to exhibit a similar trend, peaking in 2007, dropping in 2008, and looking again to rise in this year. These searches do not correlate with the more general reporting numbers for NAO discussed previously, which peaked in 2005–2006. It is interesting that 'risk' and 'process' are mentioned most of all, while 'good practice' and 'value for money' are mentioned least. Some critics might take this as indicating that NAO is less good at getting

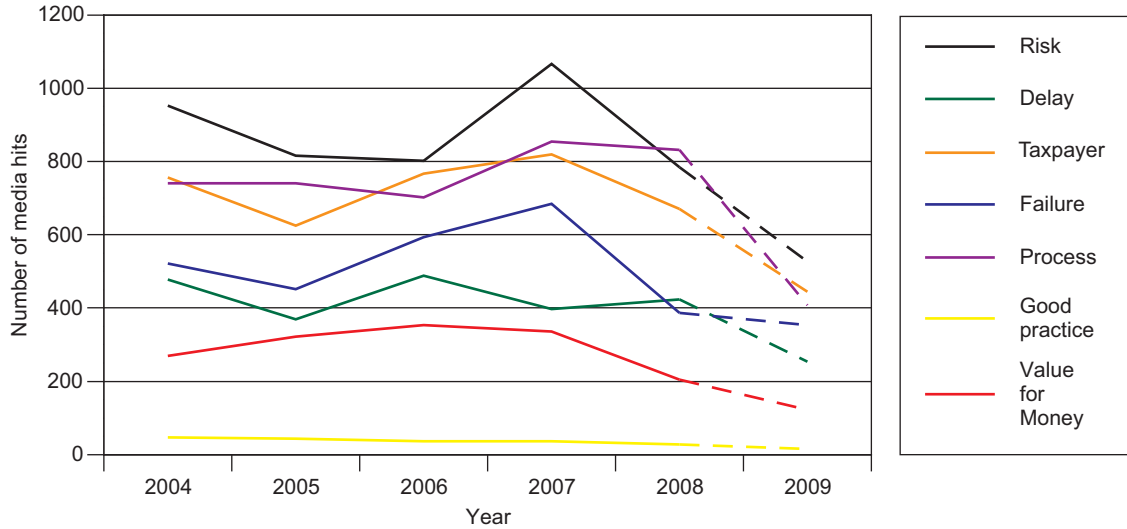
across the positive messages from its studies that other organisations might learn from. Turning to the PAC results in Figure 18, 'risk' was again relatively highly scoring, but the media also link PAC with themes like 'taxpayer' and 'failure', reflecting PAC's greater ability to critique departments and question major project delays and overspends.

Figure 16: Media coverage for selected NAO and PAC reports

Report	Session	NAO media hits	PAC media hits	PAC + Leigh	Recommendations in NAO report	Number of Questions in PAC Session
Foot and Mouth: Applying the Lessons (HC 184)	2004-05	425	226	29	6	196
HM Treasury: The nationalisation of Northern Rock (HC 298)	2008-09	232	31	33	9	90*
Ministry of Defence: Chinook Mk3 Helicopters (HC 512)	2007-08	210	297	36	3 (from previous PAC report)	150
Reducing the reliance on landfill in England (HC 1177)	2005-06	161	76	26	5	110
Central government's use of consultants (HC 128)	2006-07	50	66	18	7	145
Delivering Public Services to a Diverse Society (HC 19)	2004-05	50	15	5	9	N/A (No PAC hearing or report)
Department for Environment, Food and Rural Affairs: The health of livestock and honeybees in England (HC 288)	2008-09	41	33	5	10	136*
End of Life Care (HC 1043)	2007-08	15	4	3	12	109
The termination of the PFI Contract for the National Physical Laboratory (HC 1044)	2005-06	12	5	2	10	124
Sickness Absence in Department of Transport and its agencies (HC 527)	2006-07	10	13	11	13	141

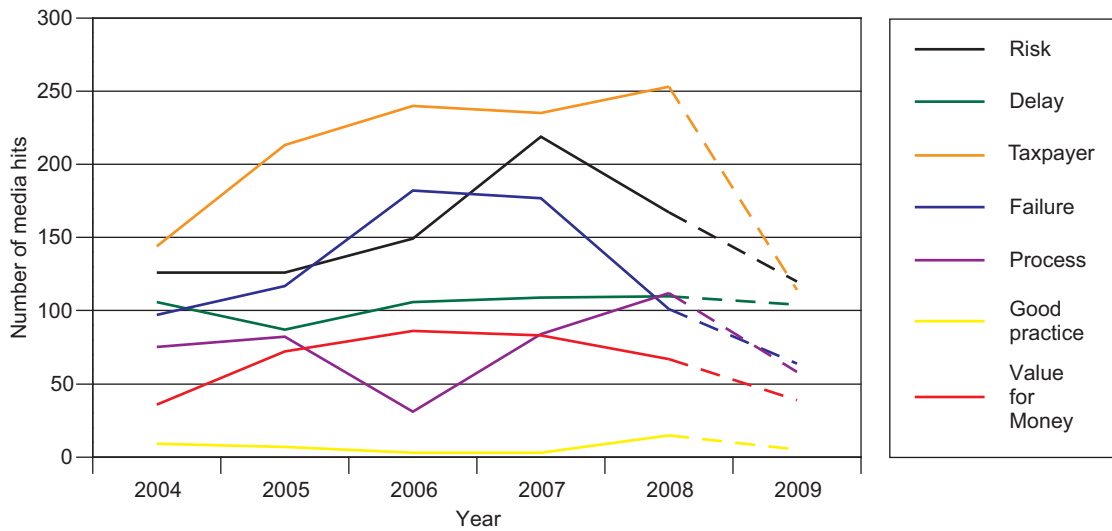
Note: \* We used a still uncorrected transcript on the PAC website. The PAC columns show results for our search for "PAC" OR "Public Accounts Committee" AND "Edward Leigh" AND our search term. Our searches contained the PAC Chairman's name chiefly to eliminate references to other Commonwealth countries' PACs.

**Figure 17: Media results for key terms linking with NAO 2004–9**



Source: Lexis News Search. Note: 2009 figures extrapolated from results to May 2009.

**Figure 18: Media results for key terms linking with the PAC 2004-9**



Source: Lexis News Search. Note: 2009 figures extrapolated from results to May 2009.

## Influences on and the limitations of NAO and PAC and the risk landscape

4.9 According to Pollitt (1994) the PAC's main strength has been that it is bipartisan, and that NAO's briefs and background knowledge give it relative strength when dealing with well-informed permanent secretaries and civil servants. These points still seem equally valid now, and PAC is clearly considerably advantaged compared to normal departmental Select Committees, whose sources of expertise are often limited to the Clerk, committee specialist and outside experts retained as Special Advisors, plus the erratic value of the expert witnesses who give evidence to them. Similarly, NAO draws strength from the fact that most of its reports go to a strong Commons committee, whereas other bodies (like the Audit Commission) can only broadcast their reports. Overseas audit bodies also greatly envy the NAO's strong parliamentary profile.

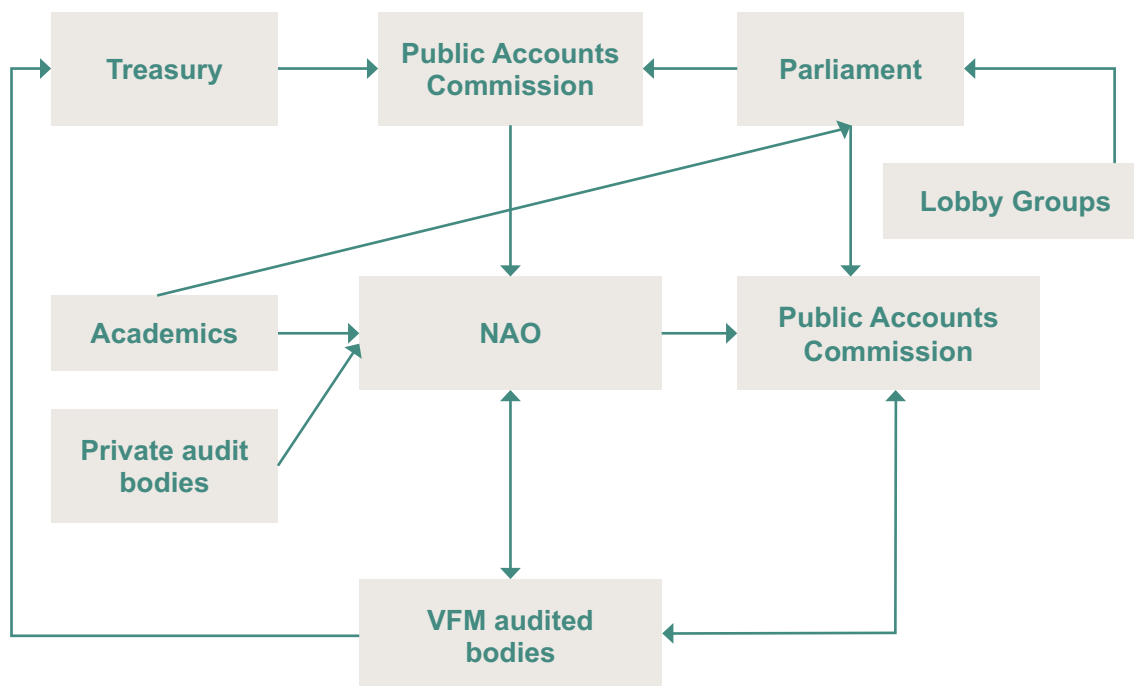
4.10 However, from analysing several hundred VFM studies for NAO under 'cold review' and 'hot review' procedures, LSE Public Policy Group would also argue that NAO faces four important limitations in performing its VFM work.

- First, because NAO staff are generalists and cannot question policy, its recommendations have tended not to be very prescriptive. They often lack details of how the department examined could improve its performance, and they do not set out what specific outcomes PAC should look for to be certain that performance has actually improved.
- Second, VFM reports tend to be more specifically financial than managerial, and they rather rarely look at HR/staffing issues, contract management or policy delivery in a critical fashion, which means that departments often do not learn lessons and mistakes can continue into subsequent projects.
- Third, NAO tends to miss some big issues because of the imperatives of clearance. For example, the Gershon efficiency review took place largely outside NAO's remit – yet if major savings were made as claimed, why had NAO not spotted them earlier on? Much of the Gershon work related to issues beyond central government, and some involved changes of policy that NAO inherently could not address under its remit. But this still leaves a big question mark over why large-scale savings could be achieved on top of NAO's constant scrutiny.
- Finally, NAO's dependence on Parliament and the PAC and its timescales constrain more in-depth studies, and there is a risk of high-profile audits of controversial programmes dividing the PAC along party lines. As Pollitt (1994: 547-548) argues: 'In a sense, NAO is performing a continuous balancing act: it needs its reports to be controversial enough to remind Parliament and public of its usefulness, yet not so controversial as to arouse the punitive instincts of ministers and departments'.

4.11 There are other, external influences to NAO and the PAC in how they carry out their VFM and audit work. Figure 19 below summarises the more important relationships that NAO and the PAC have with external groups inside and outside government. As discussed in the opening section, in recent years NAO has made more and more use of private consultancy and accounting firms and some academic researchers to carry out aspects of their work. NAO has historically taken its academic links with LSE and now also Oxford and City University seriously and it engages in constant 'horizon-scanning' to try and ensure that it understands current research in areas like assessing VFM, risk management, PFIs and procurement and regulatory policy. Because NAO staff are generalists they also invest heavily in maintaining

links with relevant professional groups in policy areas they are covering and generally they have strong contacts in areas they will need to revisit. The make-up of PAC members can allow for other influences from external groups such as business lobbyists, trade unions, professions and academics, and specialist press journalists.

Figure 19: Influences on NAO and PAC



### The influence of NAO and the PAC and the risk landscape

4.12 For most of the last decade, NAO has been anxious to avoid fostering a culture of ‘blame’ (Perrin, 2000; Power, 2003), that has existed in the public service (Hood, 2002; Rothstein and Downer, 2008) and which has been widely seen as inhibiting public sector organizations’ ability to learn from mistakes. NAO reports reflect this effort in many ways – for instance, they never identify specific individuals or teams within departments that have led to time and cost overruns and they frame all their observations about ‘the Department’ as a whole. Issues involving inter-organizational dealings (for instance between a department and one of its agencies or quangos) will often reveal more about differences of view. NAO is also aware that some civil servants are strongly critical of its approach, which one Downing Street aide described to us as ‘bayoneting the wounded’ – by which he meant, seeking out failing agencies grappling with problems and then making life worse for them.

4.13 Senior staff at NAO are also acutely aware that its studies and especially the PAC hearings that follow may act on departments as a conservative restraint that inhibits innovation and legitimate risk-taking in government. To counteract this effect for at least a decade NAO has engaged constructively with new approaches and technologies and it has tried to signal that it is not opposed to legitimate innovation. Indeed NAO reports often accuse departments of not being innovative enough in their work.

4.14 NAO's role in the arena of public risk tends to centre on project and financial risk to departments, rather than ground level risks to citizens. The Office has worked with a network of departmental risk managers convened by the Treasury, which achieved some modest improvements in risk management following lines suggested in NAO reports. Since 2003 NAO has produced many reports relevant to risk:

Figure 20: Some major NAO reports concerned with risks 2003-9

Session	Report Title
2003-2004	Risk Management: The Nuclear Liabilities of British Energy plc
2003-2004	Improving patient care by reducing the risk of hospital acquired infection: a progress report
2003-2004	Managing Risks to Improve Public Services
2004-2005	Department of Health: Reforming NHS Dentistry – ensuring effective management of risks
2006-2007	Preparations for the London 2012 Olympic and Paralympic Games – Risk assessment and management
2007-2008	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories
2007-2008	The Home Office: Reducing the risk of violent crime
2007-2008	Allocation and management of risk in Ministry of Defence PFI projects

Clearly NAO is not averse to the existence of risk in government programmes and projects. Instead the Office tries to promote an intelligent, healthy and innovative approach to risks, especially obvious ones.

4.15 This stance is reflected (imperfectly) in PAC hearings and more fully in PAC reports which do not necessarily criticise Permanent Secretaries for undertaking a risky course of action per se. Harsh criticisms mainly occur when a risk that has been made obvious through past experience of similar projects or through international comparators is then ignored or not fully taken into account, in such a way that cost and time overruns are created or inadequate or inferior service delivery results. The following extract from the PAC's 2009 report into the Chinook M3 procurement shows just this sort of criticism with the PAC Chairman accepting that the original procurement was flawed, but harshly critiquing the MoD's actions and decision-making subsequent to this:

*Q3 Chairman:* Yes, I understand all that Sir Bill and a mistake was made in the first place, we all know that. If this had been the Second World War, you would immediately have got these helicopters into service somehow, would you not? You would have gone back to steam-driven Mk2 helicopters. You took five years to try to modify them and then, virtually overnight, you cancelled that modification. We still do not have these helicopters. It just shows an appalling weakness in your decision-making process. You made an original mistake; well that was bad enough but we all make mistakes. Then, instead of just



immediately accepting the consequences of that, stripping out these avionics and reverting back to the Mk2, you spent five years trying to develop a new system and you have gone back effectively to the old Mk2. What are you playing at?

As we have seen, the PAC has much more ability in this area to assign blame, and will do so in its reports and in the media.

4.16 NAO studies and especially the PAC reports mainly address issues after the completion of projects, or in their very late stages – hence the risk that their post hoc work is not as effective as it could be had it been undertaken earlier or in a more preventative mode. Unfortunately, both the relative inflexibility of government projects once they have begun and the resistance of departments and ministers to publicly acknowledging any problems, makes oversight difficult at early stages of projects. Departments also often do not seem to take into account previous PAC recommendations in their new projects, possibly because NAO reports are overly specifically titled and indexed on their web site, or perhaps reflecting the fact that around a third of Senior Responsible Officers on major projects have never undertaken the role before.

4.17 Sharma (2007) discusses the role of MPs, civil servants and the media in PAC hearings:

The MPs sought to create an arena within which they could appear intimidating. This approach is in contrast with that adopted by the audit teams who adopted a cautious tone of disapproval. Theatrical aggression and imposing language of the MPs creates an impression to the media audience and the auditees that MPs dominate the exchange throughout the hearing. The ‘meek’ appearance portrayed by the witnesses creates an impression of subservience (pp. 304-305).

Departmental Permanent Secretaries and other witnesses can often be spoken to by MPs in an aggressive, almost belligerent fashion, in high contrast to the relatively benign critical tone of most NAO reports. The PAC session could be considered to be a ‘performance’ to a receptive media audience which (as we have seen in previous examples) will then take away the harsher judgements and statements made by the PAC and especially its Chair. This will filter into the media discourse around topics and will likely be the main area of reportage seen by the public.

4.18 It is difficult to measure the direct impacts of NAO and PAC on the policy agenda, especially as NAO reports are only able to critique how policy is implemented, rather than the policies themselves. One recent example which may be illustrative is the extra £10 million pledged by Defra on 21 April 2009 for research into bee and pollinator decline. This followed an NAO report into animal and bee health (NAO, 2009), published in early March which discussed the decline of honey bees in England, and also estimated that honeybees benefit the economy to the tune of £200 million a year. The following extracts between the PAC Chair and Dame Helen Ghosh, Defra’s Permanent Secretary (taken from the uncorrected PAC evidence session of 18 March 2009) may be illustrative as the manner by which the PAC ‘encouraged’ the Department to secure funding in this area:

*Q2 Chairman...* I am particularly interested in the health of bee population and I asked the National Audit Office to look at this and they have done a very good Report. It is part of something I think we should do more often in this Committee, which is to raise public consciousness of particular issues...If we look at paragraph 5.20 on page 40, we can see that the Department spent £200,000 on research into honeybee health. It seems very little to me. ... Why are you only spending £200,000 on research?

*Dame Helen Ghosh:* We absolutely share your concern and interest in the health of the bee population, Chairman, both from the point of view as producers of honey but also from the point of view of their role as pollinators....You are quite right to quote the figures for our historic level of research on bees but since the Report was produced, as you may be aware, Hilary Benn and Jane Kennedy announced a Healthy Bees Plan, which is our plan for taking forward both the husbandry and disease control in the bee population but also research, and announced significant additional amounts of money for research, a total from the Defra side of £500,000 a year for the next five years, to be supplemented by contributions from partners.

*Q10 Chairman:* You see, I wonder, Dame Helen, whether you were complacent about this because if we look at paragraph 1.7 on page 12 you see, "The beekeepers we – that is NAO – surveyed reported an average loss of 30% of their colonies." That is terrifying, is it not? Then lower down that paragraph it says, "In 2008 inspectors" – that is your inspectors – "found that 9.22% of inspected colonies in England were dead." I just wonder if you took your eye off the ball and believed your own inspectors. In fact, from the work the National Audit Office has done, this could be a much bigger problem than you thought.

*Dame Helen Ghosh:* As I said earlier, Chairman, in a sense, I am admitting that we were not necessarily giving this the high priority that we should have done but, now that the evidence is becoming clearer, partly from the work that our excellent team of bee inspectors were already doing but also through the information we were getting back from the various representative groups, we have taken the decision to put these significant extra resources in to both get to the root of what the problem actually is, to get people registered on BeeBase and get the kinds of very good information we have about good husbandry, which is absolutely key to this, out there among this group of beekeepers.

*Q11 Chairman:* You keep saying the same thing and I will keep hammering you to try and get more publicity for this. All right?

*Dame Helen Ghosh:* Yes.

The PAC is very clearly interested in gaining as much media interest in its subject areas as possible, especially in those reports that cover a significant amount of public risk. In this case honey bee health has ramifications of economic risk for the wider agricultural sector.

# Conclusions:

The risk landscape  
of NAO and the PAC

# Conclusions:

## The risk landscape of NAO and the PAC

5.1 Four different types of risk are important for NAO's VFM work and the PAC's operations. We address each in turn below:

- Major project risk
- Administrative risk
- Overall budgetary and financial risk
- Regulatory risk

### Major Project Risk

5.2 NAO and PAC frequently have to consider the risks to some of the government's biggest, long-run programmes. Several contemporary projects have either already been subject to large-scale cost or time overruns, such as the NHS's National Programme for IT (NPfIT) and the National Offender Management Service's database system (C-NOMIS). NPfIT gained at least £200 million in central costs estimates between NAO reports in 2007 and 2008, and was also at least two years overdue. The C-NOMIS project was scoped at costing £234 million in 2005 but will now also be at least two years overdue and cost on the order of £513 million – and with reduced functionality from what was originally envisioned. The following opening statement from Edward Leigh MP to Phil Wheatley, Director General of NOMIS is instructive in the PAC's often adversarial attitude to departments they perceive to have not performed adequately, or not learned the lessons from past failures in major projects: 'Mr Wheatley, you know that I have a very high opinion of you personally, but this is a dreadful report: a delay of two years; a project which was supposed to cost £234 million which in fact is costing the taxpayer £513 million; it was supposed to deliver a single database and there will be three separate databases. You will come with the classic defence line, will you not Mr Wheatley, that of course you were not there, it is all in hand now, you have learned the lessons, in the sort of school that Permanent Secretaries learn when they come to this Committee. However, I have had all this before and I just do not know whether there is any point really carrying on frankly... Why did these problems re-occur, the same old lessons have not been learnt; over ambitious, weak project management and all the rest. Give us an honest answer (PAC, 2009).

5.3 The PAC is especially minded to help departments learn the lessons from previous project cost overruns. In the March 2009 PAC report on *The United Kingdom's Future Nuclear Deterrent Capability*, which addressed the programme at the very beginning of its 16 year time frame, the PAC made a point of reminding the MOD that a previous *Astute* Class submarine programme had encountered cost overruns of 47 per cent (£1.3 billion), and that these should be avoided for the deterrent renewal programme, given the project cost of £15-20 billion in relatively tight timeframes. In his reply to this point at the PAC's oral evidence session Sir Bill Jeffrey, Permanent Undersecretary of State for the MOD said; "I think we are well aware of the risks. We believe we are managing them effectively".

## Administrative Risk

5.4 NAO exists as part of what Bowerman (2003) characterises as a ‘patchwork’ of audit bodies and legislation that has been extant for the past 150 years. There are separate top audit bodies for Scotland, Wales and Northern Ireland, and for local government and health bodies in England and Wales. Over the past 20 years the Audit Commission has expanded its remit to encompass new organisations such as health authorities (1990) and the housing corporations (1996). While NAO has had some expansion of responsibilities in the same time, these have been limited compared to those of the Audit Commission (Bowerman, 2003). Additionally, NAO is excluded from validating government public service agreements (PSAs), because this may take them too far into the policy arena, an area that NAO is forbidden from entering. The Audit Commission meanwhile, has provided advice to the Treasury in developing central government PSAs. In addition, in many less visible ways across the central government terrain, NAO’s policy analysis work is often competing for influence with sector-specific regulators or funding agencies that oversee or direct funding to complex public service delivery chains.

## Overall budgetary and financial risk

5.5 In recent years the UK government has initiated expenditure reviews, such as the Gershon Review in 2007 and its follow-up since 2008, the Operational Efficiency Programme (OEP). These were large-scale, macro-focused exercises carried out relatively independent of NAO and the PAC. While NAO looks at a large number of issues across the whole of government, such as the use of consultants and the efficiency of procurement, it rarely has input (beyond an advisory role) into these larger efficiency programmes. The OEP references NAO’s VFM work on collaborative procurement, and suggest that NAO will be able to act as a ‘check’ on the OEP’s progress, but little more – certainly no active or instigative role appears to be envisaged for NAO, just drawing up a final scorecard for OEP’s impact when the match is concluded, as NAO mainly did for the Gershon process (HM Treasury, 2009).

## Regulatory Risk

5.6 By regulatory risk we mean the risks that are present to NAO in exercising its role as an oversight body, and the elements internal to Whitehall and external in the political environment that may undermine NAO’s role and diminish its effectiveness. As discussed previously, NAO has a tendency to ‘pull its punches’ in terms of its comments on departments and agencies, especially in not criticising most departmental figures and reasoning. They are also known for issuing recommendations that are more general than prescriptive, and this can lead to a lack of learning from mistakes in the audited organisations. All of these factors exist because of the difficult departmental clearance process, which each report must go through. It may also be that study teams may become ‘institutionalised’ or ‘go native’ to some extent, coming over time to see problems from the department’s point of view. Study teams have long working relationships with one department, and may often be reticent in public criticism for fear of slowing down the clearance process and impairing the smooth running of studies. They may also have concerns around causing problems for future audits of that body, with which they will shortly have to negotiate further VFM work.

5.7 Yet other external critics of NAO have strongly argued an opposite position, namely that NAO has been too adversarial in its dealing with the civil servants, and not developed the more co-operative relations with its scrutinized community that the Audit Commission has arguably attained with local government. Our best view is that neither position is correct. NAO teams try to ensure that reports are fair and balanced, often against rather strident or unreflective civil service criticisms, but study teams also ensure that clear information about which issues are most concerning is passed to PAC via the Chair's briefing (Sharma, 2007). In more recent times, NAO has sought to reposition itself as encouraging innovation and constructive risk, undertaking a series of reports on these issues. It must walk a fine line. If NAO is seen to be fuelling or encouraging a 'blame culture', then this might inhibit departments from developing potentially risky innovations that might have the potential to provide better VFM.

5.8 Finally, since 2005 the National Audit Office has been subject to the Freedom of Information Act, which means that all of its draft reports and associated documents (such as reports by its consultants and partners) are liable to be requested by members of the public, including journalists and academics. Information on the numbers of requests is not in the public domain, although from academic work already published it seems that the focus of FOI requests to NAO has been on PFI reports, especially relating to projects in the NHS. This is one possible influence that may spur the evolution of NAO practices. A second possibility is that after the 2010 general election NAO may be asked by Parliament to expand the extent to which it works with other Commons select committees, in addition to PAC.

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# Appendix 1:

## Witnesses to the PAC

# Appendix 1: Witnesses to the PAC

Figure A1: Witnesses to the PAC from Executive Agencies 2003-2008

Executive Agencies, comprising:	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Total
Jobcentre Plus			4	1	5	10
Driver and Vehicle Licensing Agency	4	1		2	1	8
HM Prison Service			3		3	6
Highways Agency	1	1		1	1	4
Small Business Service			4			4
Health and Safety Executive	3					3
Rural Payments Agency	1				1	2
Arts Council England					1	1
Better Regulation Executive					1	1
Border and Immigration Agency					1	1
Child Support Agency			1			1
Defence Estates				1		1
Defence Procurement Agency			1			1
Disability and Carer Service				1		1
Driving Standards Agency				1		1
HM Courts Service			1			1
Identity and Passport Service				1		1
Nuclear Decommissioning Authority					1	1
OGCbuying.solutions				1		1
Pension Service				1		1
Royal Parks			1			1
The Parole Board					1	1
The Tribunals Service					1	1
Vehicle and Operator Services Agency	1					1
<b>Executive Agencies</b>	<b>10</b>	<b>2</b>	<b>15</b>	<b>10</b>	<b>17</b>	<b>54</b>

**Figure A2: Witnesses to the PAC by officials from or representatives of public bodies and non-Ministerial departments 2003-2008**

<b>Number of appearances by officials from or representatives of public bodies and non-Ministerial departments comprising:</b>	<b>2003-2004</b>	<b>2004-2005</b>	<b>2005-2006</b>	<b>2006-2007</b>	<b>2007-2008</b>	<b>Totals</b>
Inland Revenue	10	6				<b>16</b>
HM Customs and Excise	10	3				<b>13</b>
<b>Northern Ireland Audit Office</b>	4	3	6			<b>13</b>
BBC	4		4	2		<b>10</b>
Learning and Skills Council			3		4	<b>7</b>
Office of Government Commerce	3			4		<b>7</b>
HM Prison Service	5					<b>5</b>
National Offender Management Service	3		2			<b>5</b>
Northern Ireland Department of Education		2	3			<b>5</b>
Northern Ireland Treasury	2		3			<b>5</b>
Postcomm			3		2	<b>5</b>
Strategic Rail Authority	3		2			<b>5</b>
Crown Prosecution Service			4			<b>4</b>
Northern Ireland Department for Regional Development	4					<b>4</b>
Office of Gas and Electricity Markets	2		2			<b>4</b>
National Museums and Galleries Northern Ireland			3			<b>3</b>
Northern Ireland Department for Employment and Learning		3				<b>3</b>
Northern Ireland Department of Health, Social Services and Public Safety	3					<b>3</b>
Office of Water Services	3					<b>3</b>
UK Sport			3			<b>3</b>
Duchy of Lancaster		2				<b>2</b>
Duchy of Cornwall		2				<b>2</b>
Energywatch		2				<b>2</b>
Invest Northern Ireland			2			<b>2</b>

<b>Number of appearances by officials from or representatives of public bodies and non-Ministerial departments comprising:</b>	<b>2003-2004</b>	<b>2004-2005</b>	<b>2005-2006</b>	<b>2006-2007</b>	<b>2007-2008</b>	<b>Totals</b>
London Underground	2					<b>2</b>
Network Rail	2					<b>2</b>
Northern Ireland Department of Culture, Arts and Leisure	2					<b>2</b>
Northern Ireland Department of Enterprise, Trade and Investment			2			<b>2</b>
Norwich and Norfolk University Hospital			2			<b>2</b>
Office for Standards in Education (Ofsted)			2			<b>2</b>
Olympic Delivery Authority					2	<b>2</b>
Ufi/Learndirect			2			<b>2</b>
Youth Justice Board	2					<b>2</b>
Sub-total	64	23	48	6	8	<b>149</b>
Other witnesses	18	13	36	17	29	<b>113</b>
<b>Total</b>	<b>82</b>	<b>36</b>	<b>84</b>	<b>23</b>	<b>37</b>	<b>262</b>

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